START LEAVING TRACES

ANNUAL REPORT 2016

HAUCK & AUFHÄUSER

PRIVATBANKIERS SINCE 1796

START LEAVING TRACES

ANNUAL REPORT
2016

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KEY FIGURES

KEY FIGURES ON BUSINESS DEVELOPMENT (IN EUR M)

Hauck & Aufhäuser Group	2016	2015
Total assets not including assets held on a trust basis*	2,813	2,885
Business volume*	3,049	3,121
Assets under management (average)	56,540	45,000
Net interest income	19	23
Net commission income	91	86
Administrative expenses	108	120
Net income (+)/net loss (–) for the year	– 8	5
Average number of employees (FTE)**	543	529

Hauck & Aufhäuser Privatbankiers KGaA	2016	2015
Total assets not including assets held on a trust basis*	2,822	2,892
Business volume*	3,058	3,128
Assets under management (average)	38,331	32,887
Net interest income	19	23
Net commission income	75	74
Administrative expenses	99	111
Net income (+)/net loss (–) for the year	– 9	4
Average number of employees (FTE)**	478	474

* Restated in the prior year due to reclassification.
** FTE (full-time equivalents) denotes the notional number of full-time positions where there is a mix of full-time and part-time staff.

DEAR SHAREHOLDERS,
CLIENTS AND BUSINESS ASSOCIATES,

2016 was a monumental year for Hauck & Aufhäuser Privatbankiers in which a historical change in ownership made the headlines across Germany: Hauck & Aufhäuser became the first German private bank with a Chinese owner. The acquisition of our bank by Fosun International Ltd. was successfully completed in September of last year. We have since taken the first steps toward the internationalization of the bank and the further development of our business units and services.

"Together, we build bridges" – in particular bridges between China and Germany – is the strategic principle guiding our close cooperation with our new investor and partner. Fosun's expertise will support us in expanding our business and enable us to access new markets. We will preserve the centuries-old tradition and the values of our bank while also going new, innovative ways that will secure and build on the viability of our business model.

It was with this goal in mind that we enhanced our digital expertise in 2016 through the acquisition of easyfolio, one of the leading online providers of asset management products. The acquisition will enable Hauck & Aufhäuser to profitably combine its multiple award-winning expertise in investment management with the fast-growing market in digital investment products.

As a clear indicator of the sustainable growth of our business model, at the end of the last financial year, we acquired the two companies Sal. Oppenheim jr. & Cie. Luxembourg S.A. and Oppenheim Asset Management Services S.à r.l. – subject to pending approval by the supervisory authority. Through the acquisition of the fund platform services of Sal. Oppenheim in Luxembourg, we will further expand our Asset Servicing business unit and hence our range of services. We are dedicated to significantly expanding our presence on the market. This involves focusing on our clients' needs and offering them modern, tailored solutions and a full-spectrum value chain that meets the highest of demands.

We wish to thank you for the excellent cooperation and collaboration in the past year and hope that we will continue to earn your loyalty and support.

The Managing Partners of
Hauck & Aufhäuser Privatbankiers

Jochen Lucht

Michael Bentlage

Stephan Rupprecht

BUSINESS SEGMENTS AND SERVICES

ASSET AND WEALTH MANAGEMENT

In addition to Private Banking, the Asset and Wealth Management core business segment incorporates the marketing of tailored investment solutions for institutional clients as well as Investment Management. In its role as center of excellence, Investment Management is responsible for the research and portfolio management activities of the bank.

Personal commitment and a relationship with our clients built on trust are at all times of paramount importance to us. Our clear focus on advisory services and product expertise enables us to provide a holistic solution to fulfill a broad spectrum of requirements. One of the most important factors for success is the close integration with our in-house business units.

PRIVATE BANKING

We place great importance on delivering first-class support to our clients. We are convinced that the cornerstone of holistic investment advice is a close relationship built on trust. The hallmarks of our entrepreneurial action and foresighted commercial management are sustainable strategies, smart risk management, and personal dedication.

The result is a successful partnership that consistently focuses on fulfilling the goals and wishes of our clients. Our holistic investment advice involves first analyzing the principles, investment mentality, and investment objectives of our clients. In doing so, we define the desired relationship between security, profitability, and availability of the assets.

Even after portfolio optimization, we are always at our clients' side: stringent risk and asset management ensures the achievement of the defined objectives. We regularly review these aspects over the course of the cooperation. This allows us to ensure that we can respond individually and promptly to changes.

In the Private Banking segment, the 2016 financial year – in particular the first half of the year – was marked by great uncertainty on the financial and capital markets (e.g. as a result of Brexit and the U.S. election) with a corresponding impact on the investment behavior of our clients. Additionally, the European Central Bank (ECB) continued with its low-interest policy and reduced its deposit facility rate to −0.4 %.

Despite the difficult market environment, thanks to professional investment advice and excellent investment results achieved in asset management by the Investment Management unit, we were able to deliver positive results for our clients. As a result, we were able to record inflows of capital both through existing and new clients.

FOUNDATION MANAGEMENT

The fostering of civic involvement is an integral part of how we do business. Our team of experts provides guidance and support, from developing the foundation concept right up to the launch of the foundation. Additionally, our team provides access to our longstanding, established partnerships with foundation experts around Germany who specialize in legal matters and taxes, as well as to the competent regional supervisory bodies for foundations.

ASSET MANAGEMENT AND INSTITUTIONAL INVESTMENT SOLUTIONS

We develop tailored investment solutions for institutional investors and sales partners (wholesale partners). Our clients include insurance companies and pension funds, religious organizations, banks and savings banks, foundations, and family offices. We are specialists in stock, annuity, multi-asset and alternative investment strategies as well as SRI strategies.

Our products are the result of in-depth knowledge, clearly defined investment processes, and extensive expertise in asset management and wealth management. With their extensive capital markets experience and proven success, our highly qualified investment specialists understand what it takes to achieve top-level performance over the long term: through in-depth analysis, systematic application of quantitative decision-making criteria, and highly efficient risk management instruments.

During 2016 we succeeded in reaching yet another milestone in the strategic positioning of our core competences and investment solutions. Through streamlining our product portfolio – which also involved merging a few homogeneous funds – we created the basis for successful growth in our core strategies of "Multi Asset," "Small Caps (Euro)," "Sustainability," "Global Fixed Income," and "Global Equities."

This enabled us to achieve the largest growth in our multi-asset strategies, in our small cap funds, and, furthermore, in our SRI strategies. In the fourth quarter, particularly also following the completion of the fund mergers, we were able to discern increased demand for our Global Fixed Income fund.

All asset management strategies can be implemented as discretionary mandates in special investment funds, as investment advisory mandates, or as institutional asset management services. Furthermore, a number of these investment strategies can be acquired as mutual funds.

INVESTMENT MANAGEMENT

Hauck & Aufhäuser combines its portfolio management and analysis activities for private clients, institutional clients and mutual funds in Investment Management. The generally excellent results that we were able to achieve for our clients in the past financial year were due to both our tactical asset allocation, in particular, in the highly volatile market phase of the year, as well as our selection decisions for equities and fixed income. The key guiding principle is ensuring that portfolio management is completely independent in the preparation of this asset allocation and in its selection decisions.

As a multiple award-winning asset manager, we focus on classic investment classes such as equities and bonds. The best possible combination of asset classes – multi-asset management – forms the centerpiece of our investment management. In order to fulfill the individual investment objectives of our clients, we supplement portfolios – where desired – with alternative investments, such as market-independent strategies or commodities. Additionally, our exceptional expertise also includes SRI strategies and the management of foundation assets.

Through streamlining our product portfolio we created the basis for successful growth in our core strategies of "Multi Asset," "Small Caps (Euro)," "Sustainability," "Global Fixed Income," and "Global Equities."

The financial markets in 2016 were influenced by a number of political events, such as the attempted coup in Turkey, Brexit in the United Kingdom and, ultimately, the elections in the U.S.A. This caused a corresponding sense of unease among market participants. However, spurred on by slightly more positive economic data and hopes of more fiscal stimulus, the stock markets rallied at the end of the year and closed at the highest level for the year. In this environment, induced by excellent performance and the positive perception on the market, Investment Management in Wealth Management was able to record an increase in assets under management of around 8 %.

HAUCK & AUFHÄUSER (SCHWEIZ) AG

Our Swiss subsidiary, Hauck & Aufhäuser (Schweiz) AG, has specialized in sustainable investments on the German-speaking markets for more than 20 years.

In the past financial year, it was able to further enhance its market position. The multiple award-winning public investment funds, PRIME VALUES, are offered through an ever-expanding distribution network and have also been incorporated into the investment universe of prestigious insurance companies.

The "Asset Management Sustainability" advisory service for individual mandates is considered to be an attractive addition to conventional asset management and was also able to generate growth in volumes.

ACQUISITION OF THE DIGITAL ASSET MANAGEMENT PORTAL EASYFOLIO

In May 2016, Hauck & Aufhäuser acquired easyfolio GmbH, one of the leading online providers of asset management products, making it the first independent private bank in Germany with dedicated expertise in robo-advice. The clients of both companies will benefit from our cooperation with easyfolio. We combine extensive experience and professionalism in investment management with the comprehensive capabilities of easyfolio in digital asset management.

This enables us to contribute our multiple award-winning expertise to the fast-growing robo-advisory market. We consider this partnership with one of the most well known FinTech companies to be an excellent link between tradition and modernity.

ASSET SERVICING

The Asset Servicing core business segment includes the Financial Assets and Real Assets units. It delivers all services relating to the administration of investment products for independent asset managers, financial services providers, institutional investors, asset managers, and investment management companies (IMC) focusing on Germany, Luxembourg, Switzerland, and Austria.

As a full-spectrum service provider, the Financial Assets business segment supports fund initiators in designing, implementing, and placing their financial market products.

In May 2016, Hauck & Aufhäuser acquired easyfolio GmbH, one of the leading online providers of asset management products, making it the first independent private bank in Germany with dedicated expertise in robo-advice.

As a depositary for alternative investment funds (AIF), the Real Assets business unit offers a broad, diversified range of services for real asset investments – such as the asset classes of real estate, private equity & venture capital, infrastructure, debt, and renewable energies – for fund structures both in Germany and Luxembourg. Additionally, we can perform further fund services in Luxembourg, either as individual modules or as a package, such as central administration and fund administration as an alternative investment fund manager (AIFM).

We are our clients' high-performance partners and excel through a high degree of flexibility and individuality. Furthermore, we place particular focus on early fulfillment of regulatory requirements. This means a reduction in red tape for our clients, better investor protection, and greater market efficiency. One of the most important factors for success in this core business segment is also the close integration with our in-house units.

FINANCIAL ASSETS

As a depositary for special investment funds in Germany and Luxembourg, the support we deliver to our clients ranges from strategic advice and design all the way to the approval and issuing phases of/for mutual funds and special investment funds (UCITS and AIF). We also support independent asset managers with the development and custody of their investment ideas. The business segment is a pioneer in the industry. Hauck & Aufhäuser's collaboration with independent asset managers goes right back to the launch of the first ever private label fund in 1969.

We have strong partners at our side. In 1989, we laid the foundation for our professional platform in the fund business through our wholly owned subsidiary, Hauck & Aufhäuser Investment Gesellschaft S.A. (HAIG). In addition to the collaboration with HAIG, our cooperation with Universal-Investment-Gesellschaft, Ampega Investment, Axxion, and BayernInvest Kapitalanlagegesellschaft has also proven to be of immense value in the issuing of fund products. In 2016, we were also able to team up with Hansainvest as an investment management company for the German market.

The merger of the Luxembourg platform services of Sal. Oppenheim with those of Hauck & Aufhäuser will combine the strengths of both business units into one powerful, service-focused unit – with significant synergy effects.

In 2016, we further expanded our business with both independent asset managers and institutional clients. The increase in the total number of clients and the growth in private label funds and special investment funds testify to the viability of our business model. Through a large volume of new business, Hauck & Aufhäuser has established itself among the top third German depositaries.

We have cooperated with the Verband unabhängiger Vermögensverwalter Deutschland e.V. (VuV) [German Association of Independent Asset Managers] for many years through our joint specialist event focusing on current market and sector-related topics. As a founding member, we are closely linked to, and support, the Forum VuV. In 2016, for the 37th time, more than 500 independent asset managers and network partners joined our traditional "Hauck & Aufhäuser Asset Manager Event."

More than 300 guests from the institutional investment sector attended Hauck & Aufhäuser's third Capital Markets Day in Frankfurt in November 2016. We will also use this industry forum in the future as an intensive networking opportunity for our clients and partners.

Furthermore, in December 2016, we announced that Hauck & Aufhäuser would take over the fund platform services of Sal. Oppenheim in Luxembourg and, in the process, acquire the two Luxembourg-based companies Sal. Oppenheim jr. & Cie. Luxemburg S.A. and Oppenheim Asset Management Services S.à r.l.

The merger of the Luxembourg platform services of Sal. Oppenheim with those of Hauck & Aufhäuser will combine the strengths of both business units into one powerful, service-focused unit – with significant synergy effects. The transaction is subject to the usual conditions as well as the approval of the supervisory authorities. Transfer of ownership is expected to take place mid-2017.

REAL ASSETS

The Real Assets business unit offers a broad range of services for real asset investments as depositary for AIF – for fund structures in both Germany and Luxembourg. In doing so, we conduct the controls required under the German Capital Investment Code/AIFMD for all types of AIF that involve custody, portfolio management, control, and settlement. In particular, this includes verification of title to the individual assets of the AIF, production and monitoring of individual unit prices, and monitoring of cash flows.

As a central administrator/Professional of the Financial Sector (PFS) in Luxembourg, we offer all statutory and accounting services for the administration of alternative investment strategies and securitizations. Since its foundation in 2008, these services have been performed by our subsidiary, Hauck & Aufhäuser Alternative Investment Services S.A. (HAAS). Furthermore, through HAIG, we are an approved AIFM in Luxembourg and, hence, are allowed to manage AIF.

In total, these are capital investment products that invest in real assets. The structures we cover also include open-end and closed-end mutual funds/special investment funds pursuant to German and Luxembourg law, and various financial instruments such as holding structures, Luxembourg securitization companies, or special purpose vehicles.

The specialists at the German and Luxembourg AIF depositary, along with HAAS and HAIG, constitute our Competence Center for Alternative Investments, which guarantees the full spectrum of professional support. This enables both domestic and international clients to choose the AIFM/investment management company, asset manager, or institutional investor that offers the best possible location for their fund.

The Real Assets business unit was particularly successful in 2016 and significantly increased its assets under administration for both corporate locations in Germany and Luxembourg. A substantial contribution to this success was made through our existing clients as well as numerous acquisitions. This makes us one of the largest fund service providers for alternative real assets in the market.

FINANCIAL MARKETS

CAPITAL MARKETS

SECURITIES TRADING

Trading in securities has always been one of Hauck & Aufhäuser's core competences. Through our objective market assessments and tailored support, we systematically highlight trading opportunities for our clients in individual market segments that match their strategic alignment.

In cross-asset execution, a team of highly experienced traders helps our clients place securities orders in all important asset classes. In line with our Best Execution Policy, we ensure high-quality, service-oriented execution of orders for stocks, bonds, funds, and derivatives on the domestic and international stock markets.

For fund trading/pooling, we combine a high degree of skill in fund trading with optimal solutions for fund administration. We facilitate access for our investors to a broad range of domestic and international mutual funds, hedge funds, and hedge fund certificates. We ensure execution of ETF trading via the stock exchange and through various market makers. We also offer our institutional clients a broad range of services relating to the management of third-party fund portfolios. In addition to the management of depositaries and financial controlling of portfolio commission, this includes the transparent determination of market-friendly best-practice conditions.

In futures trading, we offer our clients the opportunity to utilize our trading expertise to leverage volatile market developments in exchange-traded derivatives – in particular on the Eurex Exchange.

FIXED INCOME SALES & TRADING

In Fixed Income Sales & Trading, we assist our clients in navigating the complex national and international bond markets to make profitable use of the products on offer.

Through our team of experienced bond experts and our extensive market access, we help our clients realize their investment decisions on the international capital markets. Furthermore, we support them in generating their own specific investment ideas and design tailored solutions that match our clients' strategic alignment and represent an objective assessment of the market.

CLIENT SOLUTIONS

In Client Solutions, we see ourselves as a partner for institutional investors and as a cooperation partner for all services on the capital market.

With a clear focus on small to medium-sized transactions, we develop, distribute, and broker selected products and solutions for the investments of our institutional clients as well as financing opportunities for companies on the capital market. We selectively draw on the structured products or solutions of third-party providers from the fixed income universe and, where requested, also provide a holistic advisory approach.

Through the structuring and placement of refinancing topics via the capital market, we enable our clients to discreetly and individually fulfill their financing needs. In doing so, we draw on a proven investor network and leverage synergies with the product and trading expertise of the Financial Markets unit to profitable effect.

Through our Debt Capital Markets Service, we support our clients as an objective partner throughout all of the stages of raising capital, from initiation to structuring and on to placement in the capital market.

CHARM®, our system for managing the opportunities and threats posed by market risks, takes a holistic advisory approach to implementing OTC derivatives in FX, interest rates, and commodities, as well as in hedging advisory.

In 2016, our clients increasingly used the opportunities on offer to invest in bonds secured through trade receivables or through senior secured corporate loans. Furthermore, we also clearly demonstrated our expertise through our successful support for corporate bond mandates. A key service in the current financial year will be providing alternative coverage for financing requirements via the capital market, such as through corporate promissory note loans.

In 2016, our clients increasingly used the opportunities on offer to invest in bonds secured through trade receivables or through senior secured corporate loans.

INVESTMENT BANKING

What sets our research, sales, and trading activities for institutional investors in the field of equity apart on the market is our consistent focus on mid-cap enterprises in German-speaking countries. The close cooperation between our research team, sales specialists, and trading units enables us to deliver integrated advisory services for institutional investors, financial investors, and companies.

INSTITUTIONAL RESEARCH

The clear focus of our Institutional Research unit is on listed mid-cap enterprises in German-speaking countries. We produce equity analysis that meets the needs of professional buy-side capital market participants. Our analysts have won multiple awards for the high standard of quality and accuracy of their research, and regularly occupy leading positions in the analyst rankings.

Through close cooperation with our Equity Sales & Trading unit, we provide our clients with excellent support for initial public offerings, secondary placements, and other capital measures.

EQUITY SALES & TRADING

Through our client-oriented Equity Sales & Trading unit, we open up opportunities for the growing number of institutional clients to successfully implement their trading ideas and investment strategies in this market segment. In addition to the numerous domestic and international stock markets, our traders also use the rapidly expanding off-exchange trading centers to exploit further market liquidity.

In 2016, an increasing number of clients drew on our in-depth knowledge of markets and clients for their capital market activities, such as for equity issuance (IPO) or capital increases. In the past financial year, our integrated advisory services approach for companies, financial investors, and institutional investors, and the clear focus on the mid-cap segment enabled us to gain a significant share of the market as well as open up access to new markets such as North America and Scandinavia.

DESIGNATED SPONSORING

We act as a designated sponsor on the trading platforms of the German Stock Market (Xetra) and as a market maker – likewise also in the form of a specialist – on the Austrian stock market (Xetra Vienna).

CORPORATE FINANCE

Hauck & Aufhäuser has gained a solid reputation as one of the leading companies in capital market transactions for mid-cap enterprises in the German-speaking countries. Our expertise, research, and excellent networks afford us a high level of placement power for companies and their shareholders.

M&A ADVISORY

We also advise companies, shareholders, financial investors and family offices on all key strategic matters relating to corporate development and M&A transactions. Our clients benefit both from the extensive experience of our M&A Advisory team as well as from the focus of our advisory services on mid-cap transactions. We develop tailored solutions with our clients that help them manage the complex strategic challenges to reach their growth targets. Through our majority shareholder, Fosun, we also form the bridge for Chinese investors and companies to Germany and Europe.

EMPLOYEES

At the end of the 2016 financial year, we look back on eventful months in which our employees strengthened the bank's standing in a challenging market environment through their extraordinary performance, commitment, and loyalty. They are both the foundation on which we build our business success as well as the basis for our bank's excellent reputation.

For more than 220 years, we have committed ourselves to the same values and principles as our founders while at the same time ensuring we keep abreast with the pace of change. This is largely due to the exemplary, superb performance of our employees, whose dedication and ambition has helped us achieve great successes. Their skills and motivation are key to the long-term growth of Hauck & Aufhäuser. At the same time, their commitment and loyalty give us a substantial advantage in the face of ever-greater competition.

We are convinced that we have two key assets in our bank: our employees and our products. For this reason, the focus in 2016 was once again on fostering our talent and high-achievers – because excellent performance demands individualized support.

We provide a range of training programs tailored precisely to our employees' needs. These skills enhancement programs include in-service training courses, bachelor and masters degrees, and certifications. Through our links to the Frankfurt School of Finance & Management, we also have access to a range of seminars geared toward professional and personal development. Intensive fostering of young talent through a dual study system also enables theoretical basics to be conveyed in a practical manner, and allows for the development of further potential.

The principle of diversity will increase in importance over the coming years and be reflected in greater effectiveness, efficiency, and innovation.

In addition to the talent development program aligned to our corporate values, our junior staff program includes a trainee program that offers ambitious university graduates an alternative to traditional direct entry. It prepares them for a range of tasks in the bank and offers them attractive opportunities for development. Throughout the entire trainee program, the trainees receive support from experienced mentors, consisting of managers in our bank who have been specially prepared for their role.

The first graduates of the new trainee program have since gone on to become valuable and highly esteemed employees. It is our intention to build on this success by continuing the program.

Our series of expert talks, "Sharing Expert Skills," also creates a platform where we can learn with, and from, one another. Here, H&A specialists give talks on current issues and aspects from their field of activities.

Language courses and language workshops also provide our employees with the opportunity to expand and develop their skills in order to rise to the challenge of greater internationalization in the bank.

The employees of the bank cooperate closely with the various subsidiaries on many joint tasks and projects. Many of them have been working for the bank for ten years or more – we consider this an extraordinary degree of continuity that clearly reflects how we live our corporate culture. In recent years, we have been able to attract many younger employees to join our experienced colleagues. 43 % of our employees are between 20 and 40 years of age. The principle of diversity will increase in importance over the coming years and be reflected in greater effectiveness, efficiency, and innovation.

Over 500 people work at the various Hauck & Aufhäuser corporate locations. Almost half of all employees are based in Frankfurt am Main. Another 24 % are based in Munich, Hamburg, Düsseldorf, and Cologne/Bonn. Furthermore, our Group has been operating from the financial center of Luxembourg for more than forty years – with one branch office and the subsidiaries of HAIG and HAAS. Around 29 % of all employees work for these companies. We have been represented in Zurich for over 20 years, and, since 2011, through our subsidiary, Hauck & Aufhäuser (Schweiz) AG. We also have a representative office in Paris and one branch office in London.

Mutual support within the company is of crucial importance to us. The bank provides assistance in times of acute, personal difficulty through the employee provident society, formed through the merger of the two provident societies of H. Aufhäuser and Georg Hauck & Sohn, which were established in 1939 and 1948 respectively. We also place great store on health and resource management.

We would like to take the opportunity to thank the members of the employee representative bodies for their constructive cooperation and the commitment they demonstrated in so many areas. All personnel and welfare matters were discussed in an open and constructive manner, and effectively implemented.

As of the balance sheet date, 31 December 2016, the bank had a total of 507 employees. As of the end of the reporting year, the Group employed a total of 578 employees (head count). 37 % of the workforce are women and 13 % of Group employees work part-time.

CULTURAL AND SOCIAL COMMITMENT

HAUCK & AUFHÄUSER CULTURAL FOUNDATION

In the 2016 financial year we also continued our traditional commitment to cultural and social projects. The issues we supported represented yet another way in which we and our partners were able to leave traces.

For the Hauck & Aufhäuser Cultural Foundation, the primary focus in the past financial year was on promoting educational projects and supporting social welfare organizations.

Since its establishment in 2008, the Hauck & Aufhäuser Cultural Foundation pools our culture-sponsoring activities and continues the traditional, values-focused commitment and conduct that has become a key element of our 220-year long history. The primary focus in the past financial year was on promoting educational projects and supporting social welfare organizations.

EDUCATIONAL PROJECTS

Through the continued funding of the “Weichenstellung” [Setting the Course] project, we supported the educational activities of the ZEIT-Stiftung in Hamburg. “Weichenstellung” focuses on helping as many elementary school pupils in Hamburg, Biberach and Ravensburg as possible make the transition to high school.

The program provides the children with tailored support to enable them to better develop their potential when they move on to other schools. The ZEIT-Stiftung concept is becoming increasingly popular, with the first activities also being established in North Rhine-Westphalia.

It is particularly gratifying to see that the "Weichenstellung" concept has been adapted in a short time to the special needs of refugee children. It enables young immigrants in Hamburg to make the transition to the regular school system as well as improve their performance in school, thereby helping them integrate better into school and society.

In the past year, we also started sponsoring the foundation "Wertestipendium" [Values Scholarship]. Together, we want to examine special aspects on the theme of values. Our first joint project aims to investigate interpersonal interaction in the digital world (digital ethics). The Internet affords us more and more freedom, but also more responsibility. So how can we success in life in the digital society? How will we build trust in the digital world? The project aims to address these questions.

The takeover by Fosun International Ltd. in 2016 was not merely a special milestone for our bank. At the closing celebration in Frankfurt, we jointly announced with the Fosun Foundation that we intend to fund scholarships over the coming years. We want to deepen the intercultural dialog between Germany and China, as well as enable the students to gain practical insights. The basis for this initiative is the long-standing network in place between Fudan University Shanghai and the Goethe University in Frankfurt am Main.

SOCIAL PROJECTS

In the past financial year, the Foundation's support also contributed to enabling "Die Arche e.V." [The Ark] to provide children with unforgettable moments and help young people better face the challenges of daily life. We have been providing the Frankfurt-based association, which operates throughout Germany, with support for several years.

In the past year, we sponsored the work of the Patrizia Kinder Hausstiftung, which has been helping children in need since 1999. With eleven children's homes around the world, the foundation helps improve the daily lives of many children, families, and local institutions (schools, hospitals, and orphanages).

Furthermore, in 2016, we decided to support the "Challenge Camps – Camps für Kinder mit Handicap" [Challenge Camps – Camps For Children With Disabilities]. This non-profit organization aims to leverage the enthusiasm and sense of achievement gained through sport to build bridges between disabled and non-disabled children and, through its work, make a valuable contribution to inclusion.

ART AND CULTURE

A particular musical highlight in 2016 was our traditional concert evening. The multiple award-winning talented young pianist, Georgy Voylochnikov, delighted the audience at Schloss Garath in Düsseldorf with works by Schubert, Liszt, and Skrjabin.

We lived up to the image we have of ourselves as a strong partner on the German foundation scene through our support for the German Foundation Congress, which took place in Leipzig last year.

The Cultural Foundation is managed by the partners Michael Bentlage and Stephan Rupprecht. Alexander George completes the three-member committee as Executive Director.

CORPORATE SOCIAL COMMITMENT

As the traditional commitment of our bank to cultural and social projects is a deep-rooted element of the understanding we have of ourselves, we are committed to supporting a large number of social, cultural, and charitable projects at our corporate locations. Along with our membership of charitable associations – whose projects we support not only financially but also actively – we use targeted events to support direct communication between stakeholders of non-profit organizations, i.e., charitable foundations, associations, clubs, and so on.

On Christmas 2016, the Management Board once again decided that, instead of buying gifts for our clients and employees, we would support charities in Germany that are particularly dedicated to creating a better future for socially disadvantaged children and young people. Our particular focus is on providing regionally based support.

Among others, in the past financial year, we supported the "Pfennigparade" [Penny Parade] and the Nicolaidis Young Wings foundation in Munich. The "Pfennigparade" foundation is dedicated to providing educational opportunities, assistance, and support to disabled people. The Nicolaidis Young Wings Foundation is a nationwide point of contact for bereaved children, young people, and adults, helping and supporting those affected on their path through life.

In Frankfurt, the "Chancenstiftung – Bildungspaten für Deutschland" [Opportunity Foundation – Educational Sponsors for Germany] was the recipient of a donation. Through its targeted support in schools and in society, it helps disadvantaged children create a successful, self-determined future.

The Düsseldorf Kindertafel [Children's Food Bank] received a donation. Here, the focus is on providing children in need with a healthy, balanced diet. In Cologne, donations were given to the "Rhein Flanke" [Rhine Edge] and the "Wir helfen" [We Help] campaign. "Rhein Flanke" is dedicated to creating a fair future for refugees and young people, such as through organizing sport-based projects. "Wir helfen" is also dedicated to opening up opportunities for disadvantaged children and young people.

In Hamburg, we supported the Welthungerhilfe [World Hunger Aid], one of the largest private aid organizations in Germany that fights hunger and poverty around the world. In Switzerland, SWISSAID and MIVA received donations. SWISSAID supports self-help projects in the poorest communities by working with local organizations and local projects. MIVA promotes self-help in needy countries through providing funding and professional organization of transportation and communication projects in Africa, Asia, and Latin America.

Finally, from Luxembourg, a donation was given to the Deutsche Kinderschutzbund "Meine Burg" [German Child Protection Association "My Castle"] in Trier, an organization that provides advice and support to children and young people who find themselves in difficult life situations.

Furthermore, our employees participated in a range of social campaigns throughout the entire year. Participation in the 2016 Malteser Social Day enabled social commitment on a working day: Hauck & Aufhäuser gave interested colleagues the day off work to provide practical support at a charitable organization. Throughout all of 2016, our employees contributed to numerous other social initiatives, including the Frankfurt corporate run "J.P. Morgan Corporate Challenge," the Christmas wish-list campaign of "Die Arche e.V.," and the Christmas package campaign for Romanian children organized by "Das kunterbunte Kinderzelt e.V." [The Multi-Colored Children's Tent].

On Christmas 2016, the Management Board once again decided that, instead of buying gifts for our clients and employees, we would support charities in Germany that are particularly dedicated to creating a better future for socially disadvantaged children and young people.

REPORT OF THE SHAREHOLDERS' COMMITTEE

In accordance with its duties pursuant to the bank's Articles of Association, the Shareholders' Committee supervised the development of the bank and its subsidiaries on the basis of the reports regularly submitted to it, and discussed important business transactions, the bank's position and the general economic situation with the Managing Partners. Matters of general policy and specific issues were discussed at four meetings of the Shareholders' Committee in 2016, which were held together with the Supervisory Board, and in numerous discussions between its chairman and the Managing Partners. The bank's business performance was discussed intensively. Topics of discussion were, in addition to sustainable improvement of the bank's earnings situation, the measures by the Managing Partners to cover and monitor risks, on which the Shareholders' Committee was briefed in detail at each of its meetings.

The annual reports by the heads of Internal Auditing and Compliance were presented and discussed in detail.

At the first meeting of the year convened on 22 April 2016, the auditor reported on the annual financial statements for 2015 and was available to answer questions. The annual report and the invitation to the Annual General Meeting on 1 June 2016 were also approved. Furthermore, various strategic and regulatory issues were discussed. At this session, the meeting of the Audit Committee also took place. This Committee holds regular annual meetings in which it intensively examines the annual financial statements of the bank along with the auditors' report.

At the meeting of the Shareholders' Committee prior to the Annual General Meeting on 1 June 2016, the proposals put forward for resolution at the Annual General Meeting were adopted. Furthermore, the Shareholders' Committee conducted a detailed examination of the strategic changes and existing legal risks.

The Annual General Meeting on 1 June 2016 approved the 2015 annual financial statements and agreed to the proposed appropriation of profit; the acts of the Personally Liable Partners, the Supervisory Board and the Shareholders' Committee were ratified.

With effect as of 9 September 2016, the Hong Kong Stock Exchange-listed investment group, Fosun International Ltd., became the majority shareholder of the bank via an intermediate holding company. On the same date, as a result of the change of ownership, Dr Jürgen Heraeus, Frank Asbeck, Clemens Busch, Hansjakob Müller, and Florian Rehm stepped down from office.

At an extraordinary general meeting held on 14 October 2016, Mr. Liu Qiang and Mr. Tang Bin were elected members of the Supervisory Board. In the subsequent constitutive meeting, Mr. Liu Qiang was elected Deputy Chairman.

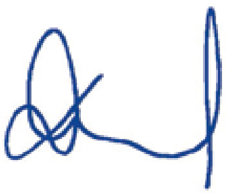
At the autumn meeting on 14 October 2016, the results for the ongoing financial year both for the Group as a whole and for the respective business segments were analyzed in detail. Furthermore, decisions were taken with regard to the inorganic growth of the Group.

At the last meeting of the year on 19 December 2016, the focus was on the preliminary results for 2016 and the planning for 2017. Furthermore, the Shareholders' Committee intensively discussed the strategy of the Bank.

The Personally Liable Partners explained to the Shareholders' Committee the consolidated Group financial statements and the annual financial statements of the parent company as of 31 December 2016, the management reports, and their proposal for the appropriation of profit. Following a detailed examination, the Shareholders' Committee recommends that the Annual General Meeting adopt the consolidated Group financial statements and the annual financial statements of the parent company in the version as prepared by the Personally Liable Partners and audited and issued with an unqualified opinion by the auditor Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart. On the other items of the agenda, the Shareholders' Committee recommends that the Annual General Meeting adopt the proposals put forward by the Supervisory Board and the Personally Liable Partners.

Frankfurt am Main, 10 April 2017

The Shareholders' Committee



Wolfgang Deml
Chairman

REPORT OF THE SUPERVISORY BOARD

In accordance with its duties pursuant to law and the bank's Articles of Association, the Supervisory Board convened six times in 2016, of which four times jointly with the bank's Shareholders' Committee, and kept itself regularly informed of the management and development of the bank and supervised the conduct of the bank's affairs. Matters of general policy and specific issues were discussed at the meetings of the Supervisory Board and in numerous discussions between its chairman and the Managing Partners . The development of business at the bank, its domestic and international subsidiaries and the conditions on the market were dealt with intensively. Further subjects of detailed discussion, besides the further improvement of the bank's earnings situation, were the measures by the Managing Partners to cover and monitor risks, on which the Supervisory Board was briefed in detail at each of its meetings. The annual reports by the heads of Internal Auditing and Compliance were presented and discussed in detail.

The Supervisory Board Credit Committee decided on all loans submitted for its approval in accordance with the requirements of law and also reviewed the structure of the loan portfolio. In particular, it discussed in detail with the Managing Partners all major loans, the industry-specific and country-specific risks, and all loans exposed to higher risks. The bank complied with the Minimum Requirements for Risk Management directive. Special consideration was given to the coverage of the various risk aspects and adequate risk provisioning.

The bank's affairs were conducted in compliance with the rules of procedure of the Supervisory Board and the Managing Partners.

The current economic situation at home and abroad was discussed in detail, as was the bank's future development and its risk position. Changes in the laws and their implications for the bank as well as external audit reports were closely examined.

Upon the close of the Annual General Meeting on 1 June 2016, the period of office of the shareholder representatives on the Supervisory Board came to an end. The General Meeting re-elected Mr. Wolfgang Deml, Rudolf Brinckmann, Dr. Thomas Duhnkrack and Dr. Jürgen Heraeus. In the constitutive meeting of the Supervisory Board following the Annual General Meeting, Mr. Wolfgang Deml was re-elected as Chairman and Mr. Rudolf Brinckmann as Deputy Chairman.

The consolidated Group financial statements and the annual financial statements of the parent company for the year ending 31 December 2015, including the accounting and the management reports, were audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, which was appointed as the company's auditor at the Annual General Meeting on 1 June 2016 and was engaged by the Supervisory Board. The auditor issued an unqualified opinion on the consolidated Group financial statements, the parent company's annual financial statements and the management reports. The auditor was available to answer questions at a meeting of the Supervisory Board held to pass resolution on the consolidated Group financial statements and the parent company's annual financial statements.

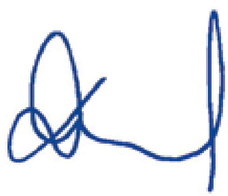
With effect as of 9 September 2016, the Hong Kong Stock Exchange-listed investment group, Fosun International Ltd., became the majority shareholder of the bank via an intermediate holding company. On the same date, as a result of the change of ownership, Mr. Rudolf Brinckmann and Dr. Jürgen Heraeus stepped down from office. Dr. Thomas Duhnkrack was elected Deputy Chairman in an extraordinary meeting held on 12 September 2016.

At an extraordinary general meeting held on 14 October 2016, Mr. Liu Qiang and Mr. Tang Bin were elected members of the Supervisory Board.

The Supervisory Board has examined the consolidated Group financial statements, the parent company's annual financial statements, the management reports, the proposed appropriation of profit, and the auditor's reports and has found no cause for complaint. Following its examination, the Supervisory Board raises no objections to the conduct of the company's affairs and the content of the documents examined, and approves the annual financial statements. It gives its approval to the management reports of the Personally Liable Partners and their proposal for the appropriation of profit.

Frankfurt am Main, 10 April 2017

The Supervisory Board



Wolfgang Deml
Chairman

COMBINED
MANAGEMENT REPORT

COMBINED MANAGEMENT REPORT OF HAUCK & AUFHÄUSER PRIVATBANKIERS KGAA

ORGANIZATION AND STRATEGY

This combined management report combines for the first time the separate management report and the group management report on the basis of Sec. 315 (3) HGB ["Handelsgesetzbuch": German Commercial Code] in conjunction with Sec. 298 (2) HGB. Any differences in business development between the Group and Hauck & Aufhäuser Privatbankiers KGaA (Bank), including with regard to earnings, the situation, key performance indicators and significant development of opportunities and risks, are always presented separately.

The Bank comprises the following entities:

- Hauck & Aufhäuser Privatbankiers KGaA (HAF), Germany
- Hauck & Aufhäuser Privatbankiers KGaA, Luxemburg branch (HAL), Luxembourg
- Hauck & Aufhäuser Privatbankiers KGaA, Niederlassung London (HALO), London branch (HALO), UK (since August 2016)

The Group comprises the following entities:

- The Bank (HAF, HAL, HALO)
- Hauck & Aufhäuser Investment Gesellschaft S.A. (HAIG), Luxembourg
- Hauck & Aufhäuser Alternative Investment Services S.A. (HAAS), Luxembourg
- Hauck & Aufhäuser (Schweiz) AG (HACH), Switzerland
- FidesKapital Gesellschaft für Kapitalbeteiligungen mbH (FIDES), Germany
- Hauck & Aufhäuser Geschäftsleitungs GmbH (HAGL), Germany

The Bank and the consolidated group companies form the statutory basis of consolidation for the Hauck & Aufhäuser Group (Group). The Bank is the central and economically dominant entity of the Group and performs group-wide functions for the other domestic group companies in this capacity.

The Bank and its subsidiaries as market participants are referred to collectively in the management report as Hauck & Aufhäuser, regardless of the statutory or regulatory basis of consolidation.

BUSINESS MODEL

As of 9 September 2016, Fosun International Limited (Fosun) acquired Hauck & Aufhäuser Privatbankiers KGaA and all of its subsidiaries. Since 9 September (closing date), 99.91 % of the Group has been held by Bridge Fortune Investment S.à r.l., Luxembourg. The ECB granted permission for the acquisition by letter dated 10 August 2016. Bridge Fortune is an indirect investment of Fosun International Ltd., Hong Kong, which is listed in Hong Kong. In turn, the listed company is majority owned by Mr. Guo Guangchang, Mr. Lian Xinjun and Mr. Wang Qunbin via Fosun International Holding Ltd., domiciled in the British Virgin Islands. The Bank (including its subsidiaries) itself is not listed, nor is it a capital market-oriented company within the meaning of Sec. 264d HGB.

The Bank is a less significant institution pursuant to Article 2 (20) in conjunction with Article 2 (7) of the SSM Framework Regulation and is supervised by BaFin ["Bundesanstalt für Finanzdienstleistungsaufsicht": German Federal Financial Supervisory Authority], the national competent authority, which in turn reports to the German Federal Ministry of Finance and Deutsche Bundesbank.

The Bank is a member of the Federal Association of German Banks ["Bundesverband deutscher Banken e.V.": BdB], Berlin, and of the Association of Banks in Hesse ["Hessischer Bankenverband e.V."], Frankfurt am Main.

As of 9 September 2016, Fosun International Limited (Fosun) acquired Hauck & Aufhäuser Privatbankiers KGaA and all of its subsidiaries.

For deposit protection purposes, the Bank is assigned to the compensation fund run by Entschädigungseinrichtung deutscher Banken GmbH.

Shareholders

Founded in Shanghai in 1992, Fosun (www.fosun.com) is now one of the largest private equity companies in mainland China, where the company is based. Fosun, whose chairman is the founder, Guo Guangchang, has been listed on the Hong Kong stock exchange since 2007.

Fosun is a strategic and long-term oriented investor with a strong global presence. Through its investment in banks and insurance companies, it has extensive experience in the financial sector.

Organizational structure

The Group is organized into three core business segments and other segments comprising the support and staff functions and other units. The core business segments are the responsibility of the Managing Partners; the other areas are assigned to a Personally Liable Partner.

The Managing Partners are responsible for the strategy and operational management of the Bank and the Group. Its members are the Personally Liable Partner Mr. Jochen Lucht and the two partners Mr. Michael Bentlage and Mr. Stephan Rupprecht. They have joint responsibility for the entire Institution.

The Supervisory Board, chaired by Mr. Wolfgang Deml, is responsible for monitoring the Managing Partners and business performance. It held six meetings in the reporting year.

The Shareholder Committee assists the Personally Liable Partners in their management function and represents the limited shareholders vis-à-vis the Personally Liable Partners.

At the annual general meeting on 1 June 2016, the financial statements prepared as of 31 December 2015, on which an unqualified audit opinion had been issued, were presented, as were the Personally Liable Partners' report and the report of the Supervisory Board report and the Shareholder Committee for the preceding fiscal year. The Bank's financial statements for 2015 were ratified and the Personally Liable Partners, the Supervisory Board and the Shareholder Committee were exonerated. The consolidated financial statements were approved.

In accordance with the SolvV ["Solvabilitätsverordnung": German Solvency Ordinance], the superordinated enterprise in the Group is Hauck & Aufhäuser Privatbankiers KGaA

Segments

Our Group's activities are organized into the core business segments of Asset Servicing, Asset and Wealth Management and Financial Markets. In addition, we also offer other services such as lending.

Locations

In our core business we concentrate on selected locations and regions in the German-speaking market.

The Bank's head offices are located in Frankfurt am Main and in Munich. At our domestic branch offices in Hamburg, Düsseldorf and Cologne, we serve high net worth private individuals and business clients as well as independent asset managers. The office in London became the London branch in August 2016. We also have offices in Paris and New York (cooperation).

With our branch, we have been operating in Luxembourg since 1973 as one of the first German private banks in Luxembourg. Furthermore, two of our subsidiaries are based at this location: HAIG, founded in 1989, and HAAS, founded in 2008.

Through our subsidiary Hauck & Aufhäuser (Schweiz) AG we have been established in our Zurich location since 1994 as a specialist for sustainable investment.

Specialist product knowledge and service experience

Our employees are the key to adding value. Their outstanding expertise enables us to offer our one-stop services of the highest level.

We have specialist knowledge in liquidity investments, financial investments, real asset investments and settlement, and expertise in the lending and deposit business.

Business processes

Our core processes, such as asset management, investment advisory services, custody business, fund administration, equities and fixed-income trading as well as institutional research, are structured in three core business segments, each under the management of one of the Managing Partners. The support and control processes, Bank Operations & IT, Group Compliance, Human Resources & Administration, Group Audit, Credit Risk Management & Finance, Planning & Control and Group Risk Management and Regulatory Reporting are managed by the Personally Liable Partner. The effectiveness of our business processes is essentially assured through continuous optimization, efficient and effective IT and the availability of highly qualified personnel.

Sales markets

In our core business, we focus on selected locations in the German-speaking market through our presence in Germany, Luxembourg and Switzerland. In line with our strategy of broadening our international activities, the London branch in the UK commenced operations in August 2016.

External business factors

The buoyant economy in Germany and the upward trend on the stock markets is allowing German banks to improve their profits.

The increasingly stringent regulation of the banking sector is pushing up banks' administrative costs. We therefore consider the implementation of regulatory and statutory requirements, such as MiFID II and FinRep, to be the biggest challenges to banks. This will necessitate further measures to optimize back office operations such as reducing the complexity of business processes and supporting processes with IT. Traditional branch sales operations will be selectively supplemented by other sales channels.

Interaction between our customer relationship managers and our customers will remain a key element of our sales activities. However, there will be a shift in the channels used for interaction towards mobile platforms for the sale of banking products, which will particularly affect the means of payment preferred by customers – EC cards, credit cards and smartphones.

In the future, we expect to outsource the operation and enhancement of mobile applications to specialized external service providers. We will be reliant on competent partners – either within or outside the Group – in order to meet the growing demands stemming from the complexity of existing and future business processes.

BUSINESS STRATEGY

Despite challenging conditions on the market, the Group has enjoyed solid performance over recent years. We have created a more agile, leaner and more efficient corporate structure and have sustainably strengthened our position in the market.

The uniform strategy defined by the Managing Partners for the Bank and the Group remains valid. The Group pursues a premium strategy, focusing on high-value services and striving to achieve relative quality leadership. This involves ongoing optimization of our diversified business portfolio and continuous improvement of our internal and external processes, leading to continually greater benefits for our customers.

By creating added value for our customers, we want to achieve a competitive edge, placing performance before cost efficiency (differentiation strategy). We strive to limit our strategic market potential to sustainably meet the needs of a small number of homogeneous customer groups (specialization strategy).

The acquisition of our Bank by Fosun International Ltd. has enabled us to reach a significant milestone in our further development. As the new owner, Fosun creates a solid foundation for the future of the Bank, and opens up new and promising opportunities for development and growth. We will expand our current range of services in the Asset Servicing, Financial Markets, and Asset and Wealth Management segments, and undertake investment to better and more comprehensively meet the needs and requirements of our customers in the future.

As the new owner, Fosun creates a solid foundation for the future of the Bank, and opens up new and promising opportunities for development and growth.

Sustainability and social responsibility are the hallmarks of Fosun's approach. We are convinced that, with Fosun as strategic partner and investor, we will be able to tap new opportunities and, at the same time, preserve our tradition as a separate and independent private bank.

BUSINESS MANAGEMENT SYSTEM

A systematic organizational structure is essential if the Group is to become sustainable and future-proof. Facts and figures are therefore compiled for the Group, its core business segments and group companies in a management information system to enable the decision-makers at all hierarchical levels to reach the best possible decisions within their remits as leaders of their organizational units.

The planning involved defining targets on the basis of the most recent results for the Group as a whole as well as for each of the core business segments, staff and support departments, and other units. These targets are measured against a range of KPIs. In order to monitor current performance, monthly profit and loss statements are prepared for the Group, the Bank, the subsidiaries, the core business segments and the other units right down to team level.

Depending on the user group, the profit and loss statements comprise summaries of results, notes, financial and non-financial performance indicators and target/actual analyses. Reports on the status of the major strategic KPIs are prepared monthly:

- Gross income (interest and commission-earning business, other income)
- Gross income per full-time employee
- Administrative expenses (personnel and non-staff operating expenses, amortization, depreciation and write-downs)
- Contribution margin
- Cost-income ratio
- Custody account, deposit and lending volumes and margins
- Number of employees

The Bank has defined group-wide limits for the major risk types in order to manage and monitor capital requirements. These limits are monitored at least monthly as part of risk reporting.

RESEARCH AND DEVELOPMENT

We do not have a research and development department like industrial companies do, but we are constantly honing our product and service offering to our customers. We therefore adapt our offering to changing customer wants and improve our service efficiency.

New products are introduced into business processes via the New Product Process (NPP). A "new product" can be the development and launch of new products, services or computation models, business activities in new markets (including new sales channels) or the discontinuation of products, services or computation models. New products may only be tested and introduced once the Managing Partners have given their approval based on a business case and a vote from the New Product Committee (NPC). The NPC has seven standing members from various business segments and levels of hierarchy. It may reach decisions by circulation.

CORE BUSINESS SEGMENTS, SUBSIDIARIES AND LOCATIONS

At the corporate locations in Germany, Luxembourg, Switzerland and the UK, Hauck & Aufhäuser provides the following services:

- Advice and wealth management for private and corporate investors
- Asset management for institutional investors
- Issuance and administration of funds
- Cooperation with independent asset managers
- Research, sales and trading activities for institutional investors in equities focus on small and mid-cap enterprises in German-speaking countries
- Services for initial public offerings and capital increases

ASSET AND WEALTH MANAGEMENT

The core business segment of Asset and Wealth Management is led by Mr. Stephan Rupprecht. In Asset and Wealth Management we attach great importance to quality and objectivity in our investment strategies. Our advisory services focus on the interests of our customers and the holistic achievement of investment objectives. We offer wealth management and tailored investment solutions for liquid assets of one million euros and above.

Institutional Clients/Asset Management

Our Asset Management products are the result of sound knowledge and clearly defined investment processes. On the basis of our extensive expertise we develop tailor-made solutions for institutional customers. We not only keep sight of regulatory requirements, but also focus on the specific needs of institutional investors. In Institutional Clients/Asset Management, we take investment decisions on the basis of prudent, sound analysis. Our investment solutions can be implemented as discretionary mandates in a special investment fund or as institutional wealth management. A number of these investment solutions can be procured in standardized form as mutual funds. In advisory/outsourcing, we work with leading Austrian and German capital investment companies and depositaries.

Wealth Management

Our range of investment management services perfectly matches our core competencies. As a multiple award-winning asset manager, we focus on classic asset classes such as equities and bonds. The best possible combination of asset classes – multi-asset management – is the cornerstone of our investment management. The prime objective of all our wealth management services is to preserve and grow our customers' wealth over the long term. We meet with our customers regularly to report on the development of their assets and to discuss their future investment strategy.

As a multiple award-winning asset manager, we focus on classic asset classes such as equities and bonds. The best possible combination of asset classes – multi-asset management – is the cornerstone of our investment management.

Investment Advice

Our holistic investment advice involves first analyzing our clients' principles, investment mentality and investment objectives. This allows us to ensure that, where necessary, we can respond individually and promptly to changes in our clients' personal circumstances. In doing so, we define the desired relationship between reliability, profitability, and availability of assets and, on this basis, develop an investment strategy to create lasting values.

Foundations

Our services for foundations range from developing the foundation concept right up to the launch of a foundation. Our team of experts also connects our clients to our long-standing, established partnerships with foundation experts around Germany who specialize in legal matters and taxes, as well as to the regional supervisory bodies responsible for foundations.

Financing

We provide our clients with short- and medium-term loans with variable or fixed interest rates tailored to their needs. Hauck & Aufhäuser's wealth management or investment advisory clients enjoy the benefits of a Lombard loan. Our clients receive Lombard loans regardless of the intended purpose – this makes it very flexible and convenient. We also provide competent support for our clients when it comes to financing real estate developments, whether residential real estate development schemes or commercial real estate developments. In real estate financing, we prefer to provide the necessary equity through granting mezzanine loans from bank funds. Where requested, we also support our clients in the structuring of the total funding – through providing it ourselves or procuring debt capital from partner banks.

ASSET SERVICING

Mr. Michael Bentlage is responsible for the core business segment of Asset Servicing. The Asset Servicing portfolio encompasses advice, opportunities for product development and solutions tailored to complex needs. This core business segment also offers the full range of products for providers of investment products, such as UCITS or special investment funds. We have extensive experience and comprehensive infrastructure for private label funds so that funds can be issued at short notice. Our Asset Servicing services for alternative investment funds include open-end and closed-end mutual funds, special investment funds in all customary asset classes and securitization in both Germany and in Luxembourg.

Financial Assets

Delivering depositary services for retail and special investment funds (UCITS and AIF) in Germany and Luxembourg, Financial Assets is the correspondent of choice for initiators and capital investment companies. Our services cover the entire process, from delivering sound advice, structuring and design services for product ideas, to guidance during the approval and issuing process and support throughout the subsequent investment phase. Financial Assets also supports independent asset managers with the development and safekeeping of their investment ideas. It also provides assistance for marketing and distribution.

Real Assets

Real Assets offers institutional clients a broad, diversified range of services as a depositary for AIF – for both German and Luxembourg fund structures. Through our extensive experience as a custodian bank and depositary, we have successively developed and expanded our services for real assets over many years.

FINANCIAL MARKETS

Mr. Michael Bentlage is responsible for the core business segment of Financial Markets.

Capital Markets

Capital Markets delivers comprehensive advice and develops tailor-made solutions for institutional investors. In Cross-Asset Execution, experienced traders professionally execute our clients' securities orders in all important asset classes. In Fixed Income, we help our customers make the most of the numerous and complex national and international fixed-income products available. The Client Solutions team delivers expertise in debt capital markets to help our clients successfully structure and execute refinancing requests via the capital markets. CHARM®, our system for managing the opportunities and threats posed by market risks, takes a holistic advisory approach to help our clients implement OTC derivatives in FX, interest rates, and commodities, as well as in hedging advisory. In Fund Trading, we execute fund and ETF trading and offer our clients a comprehensive range of services for optimizing portfolio management commissions and for fund administration.

Investment Banking

Investment Banking supports listed German small and mid cap companies and draws on excellent relationships with institutional investors in Europe and North America. The Investment Banking division of Hauck & Aufhäuser is represented at the most important European financial centers in London, Zurich, Paris, Frankfurt, and Hamburg, and has also achieved a high level of market penetration in North America and Eastern Europe, also through the cooperation with JPP Securities Inc.

GROUP COMPANIES

Hauck & Aufhäuser Investment Gesellschaft S.A., Luxembourg

This company has extensive experience in the design and administration of mutual funds. It is a specialist and skilled partner for the management of tailored and complex mutual fund structures, and ensures that all regulatory requirements are consistently implemented. In addition to supporting the initiators of private label funds (including special funds), HAIG also manages the mutual fund mandates of the Hauck & Aufhäuser Group. Where required, as a service provider, it performs the main administration and all related activities for external investment companies. What sets HAIG apart is that it offers a completely independent range of high-quality services for providers of collective capital investment products.

Hauck & Aufhäuser Alternative Investment Services S.A., Luxembourg

HAAS offers a wide array of one-stop services to initiators and investors for direct investments or funds of fund investments in private equity, venture capital, real estate, hedge funds, infrastructure and other types of assets. It manages both regulated and unregulated financial products.

Hauck & Aufhäuser (Schweiz) AG, Zurich

This company is a financial services institution that is wholly owned by our Bank. Its corporate purpose is the brokering and provision of financial services, management of assets and execution of financial transactions. Furthermore, Hauck & Aufhäuser (Schweiz) AG manages the assets of and advises institutional and private investors, manages the portfolios of investment funds and publishes economic analyses and financial commentary. The company is a FINMA-approved Swiss asset management company and is affiliated to the self-regulatory organization of the Swiss Association of Asset Managers (SAAM). The company has 20 years of experience in providing customized asset management and fund management services with a view to sustainable and ethical criteria. This expertise is also available to retail investors through the PRIME VALUES funds. The company also offers a comprehensive range of family office services.

The London branch opened for business in August 2016 and will enter the next reporting year with three sales and sales support employees.

FidesKapital Gesellschaft für Kapitalbeteiligungen mbH, Munich

The company is a financial entity that is wholly owned by our Bank. Its purpose is to hold investments in companies, especially medium-sized companies. The company does not engage in any business that requires approval under the German Banking Act. The Bank's financial investments are bundled in FidesKapital.

FOREIGN BRANCHES

Apart from its branches in Germany, the Bank also has branches in Luxembourg and the UK.

A quarterly average of 105 employees were employed in the Luxembourg branch. We see the opportunities created for Luxembourg by the acquisition of the Luxembourg Sal. Oppenheim companies as a key success factor.

The London branch opened for business in August 2016 and will enter the next reporting year with three sales and sales support employees. Central services will be provided by Frankfurt and Hamburg.

ECONOMIC REPORT

The following background information is based on our own research as well as on publications from the International Monetary Fund, the ECB and other customary sources in the banking sector such as the Association of German Public-Sector Banks in Germany [“Bundesverband Öffentlicher Banken Deutschlands”: VÖB]. The presentation, analysis and appraisal of our position contains information on the intensity and direction of changes in the reporting period. Such changes are described as follows:

DEGREES OF INTENSITY IN THE PRESENTATION, ANALYSIS AND ASSESSMENT OF OUR POSITION

From	To	Degree of intensity	Direction
15 %	or more	sharply	rising
5 %	15 %	considerably	rising
−5 %	5 %	slightly/moderately	rising/falling
−5 %	−15 %	considerably	falling
−15 %	or more	sharply	falling

PERIODS IN THE PRESENTATION, ANALYSIS AND ASSESSMENT OF OUR POSITION

From	To	Period	Instrument
year n+6	year n+10	permanent	strategic objective
year n+4	year n+5	long-term	strategic planning
year n+1	year n+3	medium-term	operational planning

MACROECONOMIC BACKGROUND

The global economy remained on track for modest growth in 2016. With price-adjusted gross domestic product growth of 3.1 % in the OECD countries, it was roughly on a par with the prior year. There was a marked contrast in the performance of the emerging markets and the developed nations. While the industrialized economies recorded growth of just 1.6 %, the emerging markets turned in growth of 4.2 %, although actual rates in the individual countries varied widely. Domestic consumption was the general driver of growth in most countries. Low inflation in many countries allowed real incomes to improve. However, corporate investment spending was disappointing. Clearly industry is still awash with too much capacity to provide much impetus for growth. The real estate sector boomed, with residential properties in particular benefiting from low interest rates. The major central banks stuck to their expansionary monetary policies. Only the US Fed raised its key interest rate by 0.25 % in December 2016; developments on the local labor market encouraged monetary policymakers in the US to up interest rates twice in a row following several years of near-zero rates. By contrast, the ECB decided to extend its unconventional policy for longer than planned to ward off the looming specter of deflation.

INDUSTRY BACKGROUND

With estimated GDP growth of 1.8 % in 2016, Germany is set to notch up a slightly better result than in the prior year (2015: 1.7 %). This was again thanks to the strong German exports, which reached EUR 108.5b in November, topping the record set in March 2015 by nearly EUR 500m. The stock markets responded with volatility to various events such as the military coup in Turkey, the Brexit referendum in the UK and Donald Trump's unexpected election victory in the US. Donald Trump's election victory was good for banking equities which stood to benefit from a move towards deregulation in the finance sector. Banks also welcomed the interest rate turnaround in the US as rising inflation expectations (also in Europe) and a steeper yield curve are good news for the banks' maturity transformation.

The Group does not have a dominant position in the market and constantly competes with other companies on the financial market. It continues to make use of opportunities to grow its market share.

MARKET BACKGROUND

In 2016, economic activity was shaped by the "new normal." Growing at a rate of more than 3 %, global economic expansion was far slower than in past cycles. Inflation rates remained at historically low levels. In order to boost borrowing, economic activity and inflation expectations, the ECB resorted to negative interest rates on savings deposits for the first time, although the impact of this instrument is not always positive. The ECB also extended its bond purchase programs and included corporate bonds.

This caused yields on fixed-income securities to plummet to unprecedented levels, even turning negative at one point.

The stock markets responded with volatility to various events such as the military coup in Turkey, the Brexit referendum in the UK and Donald Trump's unexpected election victory in the US.

2016 was a typical year of sideways movement on the stock markets, especially in Europe. Downward price adjustments were triggered by concerns about economic activity, political issues such as the Brexit, and ailing banks. However, the markets were buoyant thanks to the central bank policies, the avoidance of a recession and robust corporate profits.

In the closing weeks of the year, higher commodity prices and hopes for greater fiscal stimulus from the election of Donald Trump as US president fueled inflation expectations for the first time in a long while. This led to rising nominal interest rates and rallying stock markets, with the DAX closing the year on a positive note and German 10-year government bonds returning to positive yields.

REGULATORY ENVIRONMENT

BaFin ["Bundesanstalt für Finanzdienstleistungsaufsicht": German Federal Financial Supervisory Authority] published the first consultation draft of the amendments to the MaRisk ["Mindestanforderungen an das Risikomanagement": Minimum Requirements for Risk Management] in early 2016. The focus is on new and adjusted requirements for risk data aggregation and risk reporting in line with the Basel Committee regulation BCBS239, fostering an appropriate risk culture and outsourced activities.

The Bank measures and mitigates liquidity risk with reference to the requirements of the LiqV ["Liquiditätsverordnung": German Liquidity Ordinance] and the liquidity coverage ratio (LCR) required under Basel III since October 1, 2015. As of September 30, 2016, the LCR was reported for the first time in accordance with Delegated Regulation (EU) 2015/61 of October 10, 2014.

Additional liquidity monitoring metrics (ALMM) now also have to be reported. These are not individual figures or minimum ratios but comprise a set of reporting templates collecting highly granular information about various liquidity-related matters.

The introduction of capital buffers is designed to force banks to hold more Common Equity Tier 1 (CET1) capital. In 2016, the capital conservation buffer of 0.625 % and the variable countercyclical capital buffer (maximum of 0.625 %) were added to CET1 capital for the first time.

Following the implementation of the European Banking Authority (EBA) Guidelines on the supervisory review and evaluation process (SREP) in Germany, BaFin defined a mandatory capital surcharge for a number of institutions which are not under the direct oversight of the ECB (less significant institutions (LSIs) for the first time in summer 2016. By 2018, all LSIs will have received a capital surcharge notice. Until then, under a general order by BaFin, all LSIs which have yet to receive such a notice must make allowance for capital requirements for interest rate risk in the banking book.

Under Regulation (EU) No 1333/2014 and the Bundesbank's communication on the obligation to report money market statistics, the Bank is required to disclose money market transactions starting on July 1, 2016. The money market statistics cover euro-denominated transactions conducted by domestic monetary financial institutions (MFIs) in the secured and unsecured money market segments and in currency and EONIA swaps, with the exception of money market funds.

BUSINESS DEVELOPMENT

Inflation and exchange rate effects

Inflation and exchange rate fluctuations did not have a significant impact on individual income statement items because the Group conducts most of its activities in the eurozone or in Switzerland (CHF) and the UK (GBP). Currency trading for clients has an effect on net commission income, and net foreign exchange income impacts the Bank's other operating income.

Noteworthy events

CHANGE OF OWNERSHIP AT HAUCK & AUFHÄUSER

As of September 9, 2016, Fosun acquired a 99.91 % interest in Hauck & Aufhäuser, clearing the way for new growth prospects and the further internationalization of the German private bank with a long history. Hauck & Aufhäuser is delighted that the ECB and the other regulatory authorities have made a positive decision. Our Bank is a strategic investment for Fosun and provides the channel to invest in major economies in Europe. According to our investment plans and leveraging our rich resources across the world, Fosun can effectively help the tradition-steeped private bank enhance its position in the banking sector of Germany and the rest of Europe. At the same time, it can provide investors from China and other Asian countries with the opportunities to invest in Germany.

The Bank's administrative expenses were far greater than planned, while the Group's were substantially higher, because activities to make use of market opportunities (acquisition of large accounts and two companies in Luxembourg) were brought forward and further improvements were made to our structures and processes (new trading system, improved information architecture).

With the support from Fosun, our long-term shareholder, the Group is fully capable of building a bridge for Chinese companies seeking opportunities for investment in Germany and other European countries. Meanwhile, the Group can also help German enterprises to enter China's market. The new ownership structure did not have any impact on the course of business in 2016.

ACQUISITION OF SAL. OPPENHEIM LUXEMBOURG FROM DEUTSCHE BANK

In December, we acquired Sal. Oppenheim's fund platform business in Luxembourg and with it, the two Luxembourg-based companies Sal. Oppenheim jr. & Cie. Luxembourg S.A. and Oppenheim Asset Management Services S.à r.l. Closing is subject to the standard conditions and approvals by the supervisory authorities. Title is expected to pass mid-2017.

Comparison of results of operations with forecast

Compared to the forecast, the average assets under management at the Bank rose substantially, while this figure rose sharply for the Group. As in the prior year, our assets under management were calculated internally.

With regard to gross income, the Bank far surpassed its income targets, while the Group boosted gross income substantially.

The Bank's administrative expenses were far greater than planned, while the Group's were substantially higher, because activities to make use of market opportunities (acquisition of large accounts and two companies in Luxembourg) were brought forward and further improvements were made to our structures and processes (new trading system, improved information architecture). Administrative expenses also rose in order to meet the increasingly complex regulatory requirements (MiFID II, Market Abuse Directive, FinRep) and to expand business with Fosun.

Large write-downs on the lending and equity investment portfolios were required in the fourth quarter of the reporting year; these were far greater than the EUR 5m (prior year: EUR 3m) originally forecast for risk provisions in the Bank and the Group.

As a result, neither the Bank nor the Group were able to meet their earnings targets, measured in terms of earnings before taxes, falling short by a long way.

Overall statement regarding business development

In the reporting year, we stayed on track for growth and far exceeded our target volume of assets under management for the Group. The Bank far exceeded its gross income forecast, while the Group substantially improved its gross income.

Measures to safeguard future growth led to sharp increases in administrative expenses at the Bank and substantial increases in the Group compared to the forecast levels. But compared to the prior year, both the Bank and the Group reduced their administrative expenses substantially, thanks to the successful cost-cutting measures. Nevertheless, the Bank and the Group failed to meet their earnings targets because the additional costs associated with the growth strategy and the high risk provisions were not fully matched by higher income. Tax adjustments necessitated by the change of ownership had an effect on deferred taxes and pushed up the net losses for the year in the Bank and the Group.

Internally, we invested more than in the prior year in project-related activities to expand business operations and optimize our business processes, thereby boosting efficiency and creating a leaner cost structure.

The acquisition of the fund platform business of Sal. Oppenheim Luxembourg has not yet had a significant impact on our business performance because the transaction only took place in December and its execution is still subject to approvals by the supervisory authorities.

PRESENTATION, ANALYSIS AND APPRAISAL OF OUR POSITION

Key figures on business development

Total assets not including assets held on a trust basis comprise total assets less trust assets.

Business volume is the sum of total assets and liabilities from guarantees.

The regulatory ratios always relate to the Bank (institution).

Assets under management are calculated internally.

The Bank's net interest income declined sharply, mainly due to the prolonged low interest rate environment and the related challenges for our liquidity management and terms for our clients with regard to the negative interest rates charged by the ECB and due to a subsidiary's losses absorbed under a profit and loss transfer agreement. The Group's net interest income declined sharply.

The Bank's net commission income increased slightly. The Group increased its net commission income substantially in line with the sharp increase in the volume of assets under the Group's management.

At the same time, administrative expenses in the Bank and the Group were reduced substantially by EUR 12m thanks to the cost-cutting measures and the lack of special effects from restructuring which occurred in the prior year.

In the reporting year, we stayed on track for growth and far exceeded our target volume of assets under management for the Group. The Bank far exceeded its gross income forecast, while the Group substantially improved its gross income.

KEY FIGURES ON BUSINESS DEVELOPMENT (ALL AMOUNTS IN EUR M)

	Bank				Group			
	2016	2015		Change	2016	2015		Change
Total assets not including assets held on a trust basis*	2,822	2,892	−70	−2 %	2,813	2,885	−72	−2 %
Business volume*	3,058	3,128	−70	−2 %	3,049	3,121	−72	−2 %
Eligible own funds pursuant to Art. 72 CRR	162	163	−1	−1 %				
Assets under management (average)	38,331	32,887	5,444	17 %	56,540	45,000	11,540	26 %
Net interest income*	19	23	−4	−17 %	19	24	−5	−20 %
Net commission income*	75	74	1	1 %	91	86	5	6 %
Administrative expenses	99	111	−12	−11 %	108	120	−12	−10 %
Net income (+)/net loss (–) for the year	−9	4	−13	< −100 %	−8	5	−13	< −100 %
Average number of employees (heads)	503	494	9	2 %	573	555	18	3 %
Average number of employees (FTE)**	478	474	4	1 %	543	529	14	3 %

* Restated in the prior year due to reclassification.
** FTE (full-time equivalents) denotes the notional number of full-time positions where there is a mix of full-time and part-time staff.

Results of operations

COMPARISON OF RESULTS OF OPERATIONS WITH THE PRIOR YEAR

COMPARISON WITH THE PRIOR YEAR (ALL AMOUNTS IN EUR K)

		Bank				Group			
		2016	2015		Change	2016	2015		Change
Net interest income*	(1)	19,112	23,063	−3,951	−17 %	19,538	23,674	−4,135	−17 %
Net commission income*	(2)	75,357	74,324	1,033	1 %	91,275	86,042	5,233	6 %
Net income from trading book positions		5,370	4,085	1,286	31 %	5,370	4,082	1,289	32 %
Other net income*		9,441	8,916	525	6 %	7,751	7,458	292	4 %
Total income		109,280	110,388	−1,108	−1 %	123,934	121,256	2,678	2 %
Personnel expenses	(3)	54,195	62,657	−8,462	−14 %	61,093	68,394	−7,301	−11 %
Other administrative expenses	(4)	39,272	42,663	−3,390	−8 %	41,672	44,778	−3,106	−7 %
Write-downs		5,084	5,619	−534	−10 %	5,225	6,404	−1,178	−18 %
Risk provisions*	(5)	10,658	−3,836	14,494	< −100 %	14,181	−2,955	17,136	< −100 %
Operating result		**70**	**3,286**	**−3,216**	**−98 %**	**1,763**	**4,635**	**−2,873**	**−62 %**
Extraordinary result		0	0	0	0 %	0	0	0	0 %
Earnings before taxes	(6)	**70**	**3,286**	**−3,216**	**−98 %**	**1,763**	**4,635**	**−2,873**	**−62 %**
Income taxes and other taxes		−9,326	928	−10,253	< −100 %	−9,741	216	−9,957	< −100 %
Earnings after taxes	(6)	**−9,256**	**4,213**	**−13,469**	**< −100 %**	**−7,978**	**4,851**	**−12,829**	**< −100 %**

* Restated to improve comparability.

(1) The net interest income of the Bank and the Group dropped sharply. Net interest income was lower than in the prior year due to the ECB's prolonged low interest rate policy and the related challenges for the traditional banking operations of a private bank and for our liquidity management. In addition, expenses from a profit and loss transfer agreement had a negative impact on net interest income. Negative credit interest of EUR 3,130k was incurred in the reporting year (prior year: EUR 906k).

(2) The net commission income of the Bank and the Group rose slightly. Commission income derives mainly from securities business and, to a lesser extent, from currency trading for clients and from the lending and service business.

(3) The personnel expenses of the Bank decreased, while those of the Group were substantially below the prior-year figure. The decrease in personnel expenses relates to the successfully completed restructuring program launched in 2015 and a cautious human resources policy.

(4) The other administrative expenses of the Bank and the Group were both substantially lower than in the prior year. The decrease is attributable to lower legal costs, lower training costs and lower current costs for IT network technology, purchased services and other IT subsystems, as well rental expenses and building maintenance costs. By contrast, expenses for contributions, information services and project-related advisory costs, audit fees, compulsory contributions and IT core system costs increased.

(5) Higher allocations to risk provisions were required in the Bank and the Group to cover write-downs and provisions for possible loan losses and impairment losses in the equity investment portfolio.

(6) Earnings before taxes in the Bank and the Group were far below the original target for the reporting year on account of the high level of risk provision. The reduction in personnel and non-staff operating expenses was not sufficient to offset the allocations to risk provisions and the slight decrease in earnings for the Bank.

FOLLOW-UP ON THE PRIOR-YEAR FORECASTS OF THE RESULTS OF OPERATIONS

Operations are managed at a group level via the core business segments. The following presentation therefore only refers to the Group.

In 2015, we forecast a sharp increase in return on equity. Given the high level of risk provisions and non-recurring adjustments to deferred tax assets in connection with the acquisition by Fosun, the return on equity declined sharply and both the Bank and the Group reported a net loss for the year.

COMPARISON WITH THE FORECAST IN THE GROUP'S PRIOR-YEAR REPORT

	Actual 2015	Forecast from management report for 2015
Return on equity	2.8 %	strong increase
Net income for the year (in EUR k)	4,851	strong increase
Quarterly average number of full-time equivalents (FTE)	529	moderate decrease
Income/employee (FTE, in EUR k)*	229	slight increase
Average assets under management (in EUR m)	45,000	slight increase
Total income (in EUR m)	121	slight increase
Administrative expenses including amortization, depreciation and write-downs (in EUR m)	120	slight increase
Cost-income ratio	99	moderate decrease
Earnings before taxes (in EUR k)	4,635	strong increase

* In FTE, presented differently in the prior year.

Last year, we forecast a moderate decrease in headcount in terms of full-time equivalents, and a slight increase in income per employee. In 2016, the average number of employees rose slightly and the income per employee decreased slightly in the Bank and remained virtually stable in the Group because the onboarding of additional large mandates necessitated investments in resources but the associated future earnings potential did not materialize in the reporting year.

In 2015, we predicted that asset growth and the results of operations in our core business segments would continue to diverge, which proved true in 2016 as in the prior year. At group level, assets under management were far higher than planned.

In 2015, we also predicted a slight increase in total income. As expected, total income rose slightly in the Group.

In 2015, we also forecast a slight increase in administrative expenses including depreciation and amortization. Thanks to the continued stringent cost-cutting measures, we overachieved on this target, leading to a substantial decrease in administrative expenses in the Group.

In the fiscal year, we forecast an unchanged level of risk provision. We fell a long way short of this forecast due to developments at the end of the fourth quarter of the reporting year.

In 2015, we forecast improved earnings before taxes. Unfortunately, in the final quarter of the year, large write-downs were required on a small number of items in the Bank's loan portfolio and the Group's equity investment portfolio; these write-downs had not been anticipated to the full extent in the reporting year. In 2016, earnings before taxes were therefore lower than in 2015, and below the earnings targets planned for the Bank and the Group.

WRITE-DOWNS AND PROVISIONS IN THE LENDING AND EQUITY INVESTMENT PORTFOLIOS

The write-downs and provisions related to a small number of exposures from risk category III in the Bank's loan portfolio and to impairment losses in the equity investment portfolio of a subsidiary.

PROVISIONS FOR LEGAL RISKS

The provisions related to legal risks from pending lawsuits and ongoing proceedings. In the reporting year, legal risks did not have a negative impact on administrative expenses. Provisions were recognized for all identified legal risks in order to cover all possible risks known at present. However, the required amount of provisions for risks from legal disputes is difficult to estimate; it is based on the information available and involves the use of judgment and assumptions and may therefore be inaccurate.

In 2015, we forecast a slight increase in administrative expenses including depreciation and amortization. Thanks to the continued stringent cost-cutting measures, we overachieved on this target, leading to a substantial decrease in administrative expenses in the Group.

Financial position

The Bank and the Group were able to satisfy their payment obligations at all times. Liquidity shortages are not expected to occur and no measures were required to remedy such shortages.

PRINCIPLES AND OBJECTIVES OF FINANCIAL MANAGEMENT

The Bank is responsible for the Group's financial management, which has the following objectives:

- Secure liquidity and
- Preserve profitability (long-term minimum rate of return)

Securing liquidity is the top priority of financial management. We do this using a range of instruments and indicators which help us to both constantly safeguard our cash flow and minimize the cash flow risks in our business (e.g., interest rate, currency and counterparty credit risk). Treasury, which is part of the Financial Markets core business segment, manages cash flows centrally from Frankfurt.

By preserving our profitability, we ensure a long-term minimum rate of return on a strategic level. The long-term minimum rate of return is required to satisfy the regulatory capital requirements and master the ever-growing challenges of the banking sector (including digitization) by funding ongoing investments in people and infrastructure. We have met the regulatory capital requirements for many years thanks to the stringent re-investment of our net income.

MATURITIES AND CURRENCIES

Loans and advances to banks and customers and liabilities to banks have predominantly short-term maturities. 90 % of the Group's loans and advances to banks are payable on demand, while 42 % of loans and advances to customers are due in up to three months. In the Group, 48 % of liabilities to banks are payable on demand and 22 % are due in up to three months. 97 % of the Group's liabilities to customers are payable on demand. The predominant currency is the euro, but there are also positions in US dollars (USD), Swiss francs (CHF), pound sterling (GBP) and other currencies.

FINANCIAL PERFORMANCE RATIOS

The regulatory financial performance ratios are stated for the institution Hauck & Aufhäuser Privatbankiers KGaA. Owing to its dominant position and its status as the only credit institution within the Group, the regulatory ratios are primarily determined by the Bank. Eligible own funds pursuant to Art. 72 CRR amount to EUR 161,969k.

LCR IN THE BANK

The LCR is monitored to guarantee short-term funding. It is defined as the stock of high-quality liquid assets divided by the net cash outflows for the next 30 calendar days under a market-wide stress scenario. High-quality liquid assets are instruments which are liquid and central bank-eligible in a stress scenario and which liquidity management can exchange for cash as required. It is designed to ensure that banks are able to meet their payment obligations with their own available funds and without external aid in the 30-day stress scenario prescribed by the supervisory authorities.

LEVERAGE RATIO IN THE BANK AT THE REPORTING REFERENCE DATE

The leverage ratio denotes the maximum leverage and is calculated for regulatory purposes as the ratio between Tier 1 capital (Common Equity Tier 1 capital plus Additional Tier 1 capital) and the maximum possible business volume (total assets plus off-balance sheet items).

CAPITAL STRUCTURE IN THE BANK AT THE REPORTING REFERENCE DATE

The deductions are primarily made for goodwill and intangible assets. Tier 2 capital consists of general bad debt allowances under the CRSA plus other transitional adjustments less deductions for insignificant equity investments.

COMPOSITION OF BOOK EQUITY

	Bank				Group			
Composition of own funds	31 Dec 2016	31 Dec 2015		Change	31 Dec 2016	31 Dec 2015		Change
Subscribed capital	16,000	16,000	0	0 %	16,000	16,000	0	0 %
Capital reserves	56,331	56,331	0	0 %	56,045	56,045	0	0 %
Other eligible reserves	96,928	92,709	4,219	5 %	102,120	98,743	3,377	3 %
Currency translation/exchange differences	0	0	0	0 %	185	171	14	8 %
Equity	**169,258**	**165,040**	**4,218**	**3 %**	**174,350**	**170,959**	**3,391**	**2 %**
Net retained profit (+)/accumulated loss (–)	–9,255	4,220	–13,475	< –100 %	–6,829	4,528	–11,357	< –100 %
Book equity	**160,003**	**169,260**	**–9,256**	**–5 %**	**167,521**	**175,487**	**–7,966**	**–5 %**

DEVELOPMENT OF FINANCIAL POSITION

	Bank			
Composition of own funds	31 Dec 2016	31 Dec 2015		Change
Subscribed capital	16,000	16,000	0	0 %
Capital reserves	56,331	56,331	0	0 %
Other eligible reserves	87,673	92,709	–5,036	–5 %
Fund for general banking risks	9,950	9,499	451	5 %
Deductions*	–32,403	–26,369	–6,034	23 %
Common Equity Tier 1a capital (CET1)	**137,551**	**148,170**	**–10,619**	**–7 %**
Transitional/other adjustments*	13,904	4,665	9,239	> 100 %
Tier 1 capital (T1)	**151,454**	**152,835**	**–1,381**	**–1 %**
Eligible own funds	31 Dec 2016	31 Dec 2015		Change
Eligible own funds pursuant to Art. 72 CRR	161,969	163,373	–1,404	–1 %
Leverage ratio	31 Dec 2016	31 Dec 2015		Change
Leverage ratio (in percent)	4.7 %	5.2 %	–0.5	–10 %
Liquidity coverage ratio (LCR) in EUR m	31 Dec 2016	31 Dec 2015		Change
Stock of liquid assets	1,275	1,054	221	21 %
Outflows	1,550	1,444	106	7 %
Inflows	139	275	–136	–49 %
Liquidity coverage ratio	0.90	0.90	0	0 %

* Restated in the prior year.

COMPOSITION OF LIABILITIES AND TRANSFERRED COLLATERAL

As in the prior year, the liabilities in the Bank and the Group chiefly consist of liabilities from overnight deposits by our institutional clients which are payable on demand. As in the prior year, none of the Bank's or the Group's liabilities were secured by property liens or similar rights. The statement of liabilities is presented in the notes to the financial statements.

CREDIT LINES TO CUSTOMERS

The Bank originates loans to customers. The lending volume includes loans and advances to customers, irrevocable loan commitments, loan commitments from off-balance sheet transactions, such as guarantees and other warranties, risk limits and risk allocations for derivatives and foreign currency facilities. The contingent liabilities comprised liabilities from guarantees at the Bank, including a guarantee issued by the Bank to a subsidiary.

CASH FLOW STATEMENT

The cash flow statement presents the changes in the Group's cash and cash equivalents during the reporting year. For banks, the cash flow statement is of little informative value as it does not provide an indication of the actual liquidity situation. We report on the cash flow statement in greater detail in the notes to the financial statements.

DISCLOSURES ON LENDING VOLUME (CREDIT LINES) TO CUSTOMERS (ALL AMOUNTS IN EUR K)

	Bank			
	31 Dec 2016	31 Dec 2015		Change
Limits	639,650	644,940	– 5,290	– 1 %
Outstandings	542,437	540,244	2,193	0 %
Utilization (in percent)	**85**	**84**	**1**	**1**
Contingent liabilities	11,916	6,172	5,745	93 %
Irrevocable loan commitments	136,024	138,154	– 2,130	– 2 %

CASH FLOW STATEMENT

		Bank				Group			
		31 Dec 2016	31 Dec 2015		Change	31 Dec 2016	31 Dec 2015		Change
Cash flow from operating activities	(1)	187,409	303,968	– 116,559	–38 %	187,931	303,277	– 115,346	–38 %
Cash flow from investing activities	(2)	54,402	–768	55,170	< –100 %	53,620	–458	54,078	< –100 %
Cash flow from financing activities	(3)	222	452	–230	–51 %	482	832	–350	–42 %
Cash and cash equivalents at the end of the prior period	(4)	237,305	–66,347	303,652	< –100 %	237,305	–66,346	303,651	< –100 %
Cash and cash equivalents at the end of the period	**(5)**	**479,338**	**237,305**	**242,033**	**> 100 %**	**479,338**	**237,305**	**242,033**	**> 100 %**

INVESTMENTS

Investments are made in the form of projects, a large number of which were conducted in the reporting year. The projects mainly concerned:

- Migration to a new trading system
- Implementation of regulatory requirements (MiFID II, Market Abuse Directive II, FinRep)
- Investments in information architecture and demand management
- Measures relating to and resulting from the closing
- Expenses relating to the acquisition of Sal. Oppenheim Luxembourg

The progress made on these and other projects will continue to have an impact on administrative expenses in the future. Investments will continue to be funded with the Group's own funds.

The projects in the reporting year mainly concerned the migration to a new trading system, the implementation of regulatory requirements as well as the further development of our information architecture.

OTHER DISCLOSURES

Qualitative and quantitative information about equity, risks taken, risk management procedures and credit risk mitigation techniques are published in the disclosure report. The disclosure report can be viewed and downloaded from the homepage of Hauck & Aufhäuser Privatbankiers KGaA (https://www.hauck-aufhaeuser.com/newsroom/newsroom).

NET ASSETS

BALANCE SHEET ASSETS (ALL AMOUNTS IN EUR K)

		Bank				Group			
		31 Dec 2016	31 Dec 2015		Change	31 Dec 2016	31 Dec 2015		Change
Cash reserve	(1)	479,338	217,305	262,032	> 100 %	479,338	217,305	262,033	> 100 %
Loans and advances to banks	(2)	100,818	247,866	–147,048	–59 %	101,464	248,361	–146,897	–59 %
Loans and advances to customers		382,822	418,817	–35,995	–9 %	402,202	436,871	–34,669	–8 %
Debt securities and other fixed-income securities	(3)	1,314,234	1,545,882	–231,648	–15 %	1,314,106	1,545,653	–231,547	–15 %
Shares and other variable-yield securities		159,247	107,272	51,975	48 %	160,460	108,782	51,677	48 %
Trading book positions		897	357	540	> 100 %	897	357	540	> 100 %
Equity investments		294	458	–164	–36 %	8,026	9,542	–1,516	–16 %
Shares in affiliates		26,927	26,927	0	0 %	2,658	3,935	–1,277	–32 %
Trust assets		224,709	229,862	–5,154	–2 %	224,833	230,118	–5,286	–2 %
Fixed assets		26,669	28,136	–1,468	–5 %	19,670	21,238	–1,568	–7 %
Other assets*	(4)	309,598	272,544	37,054	14 %	305,479	270,252	35,227	13 %
Miscellaneous assets		20,964	26,305	–5,341	–20 %	18,265	22,463	–4,198	–19 %
Total assets		**3,046,516**	**3,121,732**	**–75,216**	**–2 %**	**3,037,397**	**3,114,878**	**–77,481**	**–2 %**

* Restated in the prior year due to reclassification.

(1) The cash reserve increased due to higher credit balances with Deutsche Bundesbank.

(2) Loans and advances to banks decreased as the reverse repurchase agreement of EUR 100m expired.

(3) Debt securities and other fixed-income securities decreased by EUR 232m. Most of the fixed-income securities were invested in issues with excellent ratings. A more limited volume of bonds issued by the GIIPS eurozone states (Greece, Italy, Ireland, Portugal, Spain) was held. The investment portfolio and the liquidity reserve included Italian bonds with a nominal value of EUR 120m, Irish bonds with a nominal value of EUR 30m, Spanish bonds with a nominal value of EUR 20m and Portuguese bonds with a nominal value of EUR 10m. There were no unrealized losses. No Greek government bonds were held.

(4) Other assets chiefly comprised collateral management receivables.

BALANCE SHEET LIABILITIES

(5) Liabilities to banks decreased sharply, mainly with regard to liabilities payable on demand.

(6) Liabilities to customers are mostly other liabilities. Savings deposit business is no longer actively pursued and decreased sharply. The other liabilities rose slightly overall. While liabilities payable on demand rose substantially, liabilities in the other time bands declined sharply.

(7) The holder of the participation certificate capital called it in in the reporting year and it was disbursed by the Bank.

SUMMARY OF THE SITUATION

The Bank's and the Group's net assets were in order. The financial position is stable and payment obligations were able to be satisfied on time at all times. In the lending business, the Bank adequately accounted for recognizable risks – to an unusual extent in the reporting year – by setting up bad debt allowances and provisions.

LIABILITIES AND EQUITY (ALL AMOUNTS IN EUR K)

		Bank				Group			
		31 Dec 2016	31 Dec 2015		Change	31 Dec 2016	31 Dec 2015		Change
Liabilities to banks	(5)	204,611	307,319	–102,708	–33 %	204,648	307,429	–102,782	–33 %
Liabilities to customers	(6)	2,371,270	2,319,593	51,677	2 %	2,356,934	2,307,375	49,559	2 %
Securitized liabilities		39	39	0	0 %	39	39	0	0 %
Trust liabilities		224,709	229,862	–5,154	–2 %	224,833	230,118	–5,286	–2 %
Other liabilities*		18,173	24,413	–6,240	–26 %	16,260	23,519	–7,259	–31 %
Deferred income		11,875	11,827	49	0 %	11,908	11,828	80	1 %
Provisions		45,634	49,441	–3,807	–8 %	48,390	52,686	–4,296	–8 %
Participation certificate capital	(7)	0	30	–30	–100 %	0	30	–30	–100 %
Fund for general banking risks		10,202	9,950	252	3 %	4,427	3,929	498	13 %
Equity		160,003	169,259	–9,256	–5 %	167,521	175,487	–7,966	–5 %
Negative consolidation difference		0	0	0	0 %	2,439	2,439	0	0 %
Total liabilities and equity		**3,046,516**	**3,121,732**	**–75,217**	**–2 %**	**3,037,397**	**3,114,878**	**–77,481**	**–2 %**

* Restated in the prior year due to reclassification.

The volume of assets under management in the Group increased sharply once again. The Group's income was slightly higher than in the prior year, while current expenses for personnel and non-staff operating expenses were down substantially in the Group.

The cost-income ratio (before risk provisions) improved by 10 % in the Bank and by 11 % in the Group.

The volume of assets under management in the Group increased sharply once again. The Group's income was slightly higher than in the prior year, while current expenses for personnel and non-staff operating expenses were down substantially in the Group. The operating result before special effects from risk provisioning and deferred taxes was clearly positive in both the Bank and the Group. We see this as a vindication of our strategy and believe that we are well equipped to face future challenges.

FINANCIAL PERFORMANCE INDICATORS

(1) Eligible own funds were the eligible own funds of the Bank pursuant to Art. 72 CRR [Capital Requirements Regulation] as of the reporting date 31 December.

(2) Return on equity, calculated as the net income and book equity as of the balance sheet date less the net retained profit/accumulated loss for the current fiscal year, deteriorated as a result of the net loss for the year.

(3) Income per employee declined slightly in the Bank based on the average number employees measured in each quarter in terms of full-time equivalents (FTEs). In the Group, the figure was more or less the same as in the prior year. Income comprises net interest income, net commission income, net income from trading book positions and, unlike in the prior year, other net income.

(4) The cost-income ratio improved substantially in both the Bank and the Group. It is calculated as the ratio of personnel expenses and other administrative expenses to income. Income comprises the same items as in (3) income per employee.

SELECTED FINANCIAL PERFORMANCE INDICATORS

		Bank				Group			
		2016	2015		Change	**2016**	2015		Change
A. Regulatory indicator									
Eligible own funds (in EUR m)	(1)	162	163	–1.7	–1.0 %				
B. Strategic indicators									
Return on equity (%)	(2)	–5.5	2.6	–8	< –100 %	–4.6	2.8	–7	< –100 %
Income/employee (FTE, in EUR k)	(3)	229	233	–4	–2 %	228	229	–1	0 %
Average assets under management (in EUR m)		38,331	32,887	5,444	17 %	56,540	45,000	11,540	26 %
Cost-income ratio (%)	(4)	86	95	–9.9	–10 %	83	93	–10.4	–11 %
C. Other indicators									
Total assets* (in EUR m)		3,047	3,122	–75	–2 %	3,037	3,115	–78	–2 %
Book equity (in EUR m)		160	169	–9	–5 %	168	175	–8	–5 %
Net income (+)/net loss (–) for the year (in EUR k)		–9,256	4,213	–13,469	< –100 %	–7,978	4,851	–12,829	< –100 %
Ratio of personnel expenses to total operating performance (%)	(5)	50	57	–7	–13 %	49	56	–7	–13 %
EBITDA (in EUR k)	(6)	5,154	–545	5,699	< –100 %	6,988	11,039	–4,051	–37 %
Quarterly average number of employees (FTE)		478	473	5	1 %	543	529	14	3 %

* Restated in the prior year due to reclassification.

(5) The ratio of personnel expenses to total operating performance declined in both the Bank and the Group. Total operating performance comprises net interest income, net commission income, net income from trading book positions and other net income.

(6) EBITDA (earnings before interest, taxes, depreciation and amortization) fell substantially in the Bank and in the Group as a result of higher risk provisions and the one-time adjustment of deferred taxes in connection with the change of ownership. It is calculated as net income, plus the extraordinary result, the tax result and depreciation of property and equipment and amortization of intangible assets.

NON-FINANCIAL PERFORMANCE INDICATORS

Customer satisfaction

In addition to these financial indicators, non-financial performance indicators played a role in securing and improving our market position. One of the key targets in this respect were high levels of customer satisfaction and loyalty, which we can only achieve when we meet our customers' needs by developing innovative solutions and continually optimize our value chain for the benefit of our customers.

Employees

In fiscal year 2016, our people performed extraordinarily well in a complex market environment and were a huge asset to Hauck & Aufhäuser.

It is a constant challenge to be seen as an attractive employer both within and outside the Bank, and to retain highly qualified employees. To achieve this goal, our personnel development activities have a clear focus: to systematically plan and foster young talent, develop leaders, make processes leaner and invest the training budget effectively.

We provide a varied 12-month trainee graduate scheme to attract motivated, high-caliber university graduates. We also offer interesting opportunities for professional in-service qualifications ranging from banking diplomas up to a bachelor's degree. Through our links to the Frankfurt School of Finance & Management, we also have access to a range of seminars relating to professional and personal development.

At the balance sheet date, 507 persons worked for the Bank, of whom 436 were full-time staff and 71 part-time. At the balance sheet date, we employed 185 women and 322 men.

At the balance sheet date, 578 persons worked for the Group, of whom 493 were full-time staff and 85 part-time. At the balance sheet date, we employed 215 women and 363 men in the Group.

Hauck & Aufhäuser Cultural Foundation

Through the Hauck & Aufhäuser Cultural Foundation, which we established in January 2008, Hauck & Aufhäuser continues its more than 220 year-old tradition of promoting cultural and social projects. Such engagement plays an important role in how our Bank sees itself.

In the past fiscal year, the focus was on promoting educational projects and supporting social organizations. For example, we continued our involvement in the "Weichenstellung" (setting the course) project, an educational program of the ZEIT foundation in Hamburg. We also started to donate to the Werte-Stipendium foundation in 2016. Our welfare activities include supporting the national organization "Die Arche e.V.," the children's charity "Patrizia KinderHausstiftung" and the organization "Challenge Camps – Camps für Kinder mit Handicap."

Gender parity in leadership positions

Hauck & Aufhäuser is currently not obliged to comply with a legal gender quota at management level. Hauck & Aufhäuser aims to increase the percentage of women in leadership roles at team leader and department head level by 2 % to 3 % by mid-2017. The target increase in the percentage of women at these two levels was overachieved at the end of 2016. Currently, 18 % of all executives are women. This is an increase of 5 %. Just under 40 % of the workforce is female. 22 % of team leaders and 14 % of department heads are women. At present, there are no women at the Managing Partners level or in the Supervisory Board.

Currently, 18 % of all executives are women. This is an increase of 5 % compared to the prior financial year.

SUSTAINABILITY

Compliance Charter

Hauck & Aufhäuser is aware that non-compliance with legal and regulatory requirements can lead not only to financial consequences but also to a loss of reputation. Hauck & Aufhäuser has developed a group-wide Compliance Charter, setting binding compliance targets and defining the measures required to achieve them.

Hauck & Aufhäuser pursues the following compliance targets:

- As an integral component of Hauck & Aufhäuser's comprehensive risk management system, the compliance function works to ensure – and monitors – group-wide compliance with statutory and regulatory provisions as well internal regulations and those customary in the banking sector. In particular, compliance protects customers and investors and, thus, indirectly the Institution.
- A culture of compliance is established in Hauck & Aufhäuser and all employees' awareness of compliance risk heightened. The group-wide Compliance unit is the central point of contact and advisor with regard to regulatory requirements and internal/banking sector-wide regulations.
- Standardized and efficient compliance processes ensure appropriate fulfillment of the stated requirements, even in the event of significant changes to Hauck & Aufhäuser's business model.

The Compliance Charter is published on the intranet and is binding for all employees of the Hauck & Aufhäuser Group.

Lending policy

In our lending business we provide our customers with individual finance solutions. We offer added value because we consider the overall situation of the customer in our approach to solutions rather than the sales activities of Hauck & Aufhäuser.

We adhere both to the codes of conduct we have set ourselves as well as to legal standards. We thus avoid financial and reputation loss for customers and Hauck & Aufhäuser by refusing to enter into any business activities that run counter to our principles. This applies in particular to business

- with persons or groups classified as anti-constitutional, politically radical or religiously fundamental;
- with customers who have been found guilty of committing serious offenses against property;
- for which the payment of bribes by Hauck & Aufhäuser is demanded;
- supporting the manufacture of armaments or the sale of weapons whose export is prohibited by the German federal government;
- which serves the illegal circumvention of statutory provisions.

Money laundering

Hauck & Aufhäuser has put in place appropriate safeguards at transaction and customer level to prevent money laundering. These include the continuous development of appropriate strategies, safeguards and controls to prevent the misuse of new financial products and technologies for money-laundering purposes, the financing of terrorism or the facilitating of anonymity in business relationships and transactions.

Hauck & Aufhäuser has established group-wide structures and procedures to implement these requirements. The Group Anti-Money Laundering Officer, who reports directly to the Managing Partners, is responsible.

SUBSEQUENT EVENTS

No significant events have occurred since the close of the fiscal year. The implementation of strategic measures got underway.

OUTLOOK

The following background information is based on our own research as well as on publications from the International Monetary Fund, the ECB and other customary sources in the banking sector such as the Association of German Public-Sector Banks in Germany [“Bundesverband Öffentlicher Banken Deutschlands”: VÖB].

Our forecasts are based on externally sourced information which we analyze. The results of these analyses flow as SWOT analyses, gap analyses, stakeholder analyses and peer group analyses into the strategic target planning and corporate planning for the fiscal year.

Our planning and forecasts for future years are inherently uncertain, especially in light of the forthcoming approvals from the regulatory authorities to the acquisition of the fund platform business of Sal. Oppenheim in Luxembourg, and can only reflect the status quo.

Actual developments on the money markets and capital markets may deviate considerably from our forecasts. The consequences of unexpected escalations in political events could also have a significant effect on our earnings targets.

The forecasts contain statements on the intensity of a trend and its impact in the forecast period. Such changes are described as follows:

DEVELOPMENT INTENSITY OF FORECASTS

From	To	Degree of intensity	Direction
15 %	or more	sharply	rising
5 %	15 %	considerably	rising
–5 %	5 %	slightly/moderately	rising/falling
–5 %	–15 %	considerably	falling
–15 %	or more	sharply	falling

DEVELOPMENT PERIODS OF FORECASTS

From	To	Period	Instrument
year n+6	year n+10	permanent	strategic objective
year n+4	year n+5	long-term	strategic planning
year n+1	year n+3	medium-term	operational planning

MACROECONOMIC EXPECTATIONS

The global economy will gather pace somewhat in 2017 and is poised to grow by just under 3.5 % year on year. However, the industrialized nations are likely to make a bigger contribution than they did last year as consumers and manufacturers alike were more optimistic about the future at the beginning of the new year in many countries. This trend is aided by buoyant labor markets, which should continue to produce real income growth. Private consumption will continue to be an important prop for the economy with additional impetus coming from fiscal policies. The new US administration is planning to sharply increase spending and slash taxes, which – depending on the extent to which this is done – could give a temporary boost to growth at the very least. A low level of impetus from fiscal policy is also expected in Europe. The US economy is likely to expand by 2.25 %, whereas growth is forecast to be around half a percentage point lower in the eurozone and Germany, but nevertheless higher than the potential growth of just over 1 %. Inflation is likely to pick up slightly in tune with the modest acceleration in growth. The ECB is anticipating inflation (headline HICP rate) of 1.3 % on average for 2017, a whole percentage point more than in 2016. According to its projections, the underlying rate is set to inch up from 0.9 % to 1.1 %. As these trends emerge, the ECB's monetary policy will be called into question. It is likely to phase out its expansionary activities and gradually return to a normal policy.

EXPECTED SITUATION IN THE BANKING SECTOR

Banks are still facing massive structural and market-related challenges, but first rays of hope are appearing in 2017 for the first time in a long while. The interest rate turnaround pioneered by the US and expectations of rising inflation in Europe are likely to make it easier to earn cost-covering margins in traditional banking business through maturity transformation. The situation could ease further in the course of the year as interest rates rise in the US and the ECB might signalize a shift away from its extremely loose monetary policy, although we do not expect to see more than a few tentative signs here. However, besides this budding recovery, new competition from the technology sector, the rebuilding of customer confidence, the effects of the low-interest rate policy, focusing of business models and the mandatory reduction of costs will continue to be the dominant topics in the banking sector.

The interest rate turnaround pioneered by the US and expectations of rising inflation in Europe are likely to make it easier to earn cost-covering margins in traditional banking business through maturity transformation.

EXPECTED MARKET DEVELOPMENTS

The election of Donald Trump as US president fueled uncertainty as to the course of 2017. Fiscal stimuli could have a positive effect, whereas protectionist measures would be bad. Overall, however, our base scenario still assumes economic growth of more than 3 % globally and more than 1.5 % for Germany. However, as in 2016, growth will remain low, so that events on the market will frequently be overshadowed by fears of recession.

Burgeoning corporate profits and, for Europe, the strong US dollar, will have a positive effect. The central bank will adhere to its expansionary policies and will probably provide some fiscal stimuli. However, growth will be highly volatile, and the market will repeatedly be reined in by the uncertain and unclear economic situation in China and the Fed's interest rate hikes in the US.

Care needs to be taken when acting on the bond market. As a result of low yields, the opportunity/risk ratio no longer tallies, even for long maturity terms. Additionally, if the expectations of inflation rise in the US, and the Fed further raises the base interest rate, prices for long maturities could cave in. The focus remains on spread products. Corporate bonds, high-yield bonds or also selective periphery bonds are still attractive when compared to risk-free interest rates.

EXPECTED REGULATORY DEVELOPMENTS

From a regulatory perspective, 2017 will be another year of manifold challenges for the banking sector. The guidelines published by the EBA in 2014 are addressed to national supervisors to ensure a uniform framework for banking supervision. In light of the objective of improving market transparency and thereby disciplining reporting banks, disclosure requirements are likely to be extended frequently in the future.

The Basel Committee on Banking Supervision will likely adopt further measures to tighten capital requirements, including a revised standardized approach for calculating risk-weighted assets. The aim is to reduce the variability of risk-weighted assets by, for example, reducing dependency on external ratings, increasing sensitivity to risk, revising the calculation of risk weights and eliminating national options.

A new standardized approach to measuring counterparty risk will replace the mark-to-market method and the standardized approach in the capital adequacy rules.

The Basel Committee has been asked to revise the adequacy of its existing capital charges for operational risk. The new standardized measurement approach will replace the basic indicator approach and the advanced measurement approach (AMA).

Banks will need to gauge the consequences the revision of the standardized approaches will have on their business policies at an early stage.

The volume of statistical data to be collected will rise further when the ECB regulations on the reporting of supervisory financial information and on the collection of granular credit and credit risk data (AnaCredit) are fully implemented. This will require banks to raise standards for the quality and consistency of their risk data and the speed and flexibility of their reporting.

EXPECTED IMPACT OF MEASURES TAKEN IN THE PAST FISCAL YEAR

Change of ownership

Together with our strategic investor Fosun, we will make the most of new growth opportunities, accelerate the internationalization of our services, further develop our market position and gain access to new client segments. An important element of our future growth strategy will be our role as a bridge for Chinese investors and companies to Germany and Europe. At the same time, we will be able to facilitate access for German companies to the future market of China and other Asian growth markets.

Acquisition of the Luxembourg Sal. Oppenheim companies

The acquisition of the fund platform business of Sal. Oppenheim in Luxembourg and, with it, the two Luxembourg-based companies Sal. Oppenheim jr. & Cie. Luxemburg S.A. and Oppenheim Asset Management Services S.à r.l. calls for further planning work, which was not completed during the reporting period. In recent years, both companies have specialized in services to third-party portfolio managers of German fund platforms and have focused on expanding their business internationally. The acquisition will greatly enhance both our Asset Servicing segment and our service offering.

The acquisition of the Luxembourg Sal. Oppenheim companies will greatly enhance both our Asset Servicing segment and our service offering.

PLANNING PRINCIPLES

Operations are managed at a group level via the core business segments. Except where indicated otherwise, the following statements therefore always refer to the Group.

Our planning and forecasts for future years are inherently uncertain, especially in light of the change of ownership and the forthcoming acquisition of the Luxembourg fund platform business of Sal. Oppenheim, and can only reflect the status quo. Actual developments on the money markets and capital markets may deviate considerably from our forecasts.

Our forecasts for the development of growth, interest rates and exchange rates are derived from internal research and specialist publications as well as research by the IMF and supervisory authorities. The consequences of unexpected escalations in political events (Brexit implementation, elections in the Netherlands, France and Germany) could also have a significant effect on our earnings targets. It is assumed that the German economy will continue to grow. The threat of recession is therefore deemed to be low.

EXPECTED RESULTS OF OPERATIONS

As a direct consequence of the change of ownership and forthcoming execution of the acquisition of Sal. Oppenheim Luxembourg, which is scheduled for mid-2017, growth and earnings prospects continue to diverge in the core business segments and could soon differ widely from our forecasts to date. To date, the forecasts do not include all growth and earnings opportunities that could arise for the Group as a result of the change of ownership and the closing of the Sal. Oppenheim Luxembourg transaction. It is therefore likely that our forecasts will have to be adjusted during the fiscal year.

In our operative planning for next year, we remain cautious and only expect gross income to rise moderately because the additional business opportunities arising from the acquisition of the Luxembourg Sal. Oppenheim companies will not be available until after the deal is closed. The successful integration of the Luxembourg Sal. Oppenheim entities will start to have a huge impact on our forecasts in 2017; it will depend to a large extent on the supervisory authorities involved and their assessment, and may be subject to regulatory conditions.

Over the coming years, managing legal and regulatory requirements and improving the cost-efficient platform for providing our services will also entail considerable long-term investment and additional administrative expenditure, which may need to be offset through the implementation of further measures.

Fosun's global network and strong involvement will help us to further develop the business model and to achieve growth with new customers.

In spite of the events in the reporting year, we expect risk provisions to be lower in 2017 and to continue to decline until 2019. Like all other banks, our risk provisioning is subject to uncertainty and depends on the general economic development and the level of issuer, investment or collateral risks in the lending business and any related current or future legal disputes and court proceedings. Swings in either direction could have a positive or negative impact on the forecast earnings.

EXPECTED NET ASSETS

Both the Bank's and the Group's financial and liquidity position will remain stable.

Our capital base consists almost entirely of Common Equity Tier 1 capital. We will maintain our policy of making additional allocations to the reserves in the future and thus be able to meet the raised capital requirements by 2019.

For 2017, we have again budgeted for a significant volume of investment in other essential projects to implement contractual and regulatory requirements (MiFID II, BCBS239, BCBS294, SREP, FinRep, etc.). For the following years, we anticipate similar amounts with a slightly rising trend.

In our operative planning for next year, we remain cautious and only expect gross income to rise moderately because the additional business opportunities arising from the acquisition of the Luxembourg Sal. Oppenheim companies will not be available until after the deal is closed.

FORECAST FOR THE GROUP

	Actual 2016	Forecast to 2019
Return on equity	−4.6 %	strong increase
Net loss (–)/net income (+) for the year (in EUR k)	−7,978	strong increase in net income
Quarterly average number of full-time equivalents (FTE)	543	strong increase
Income/employee (in EUR k)	228	strong increase
Assets under management	56,540	strong increase
Total income (in EUR m)	124	strong increase
Administrative expenses including amortization, depreciation and write-downs (in EUR m)	108	substantially increase
Cost-income ratio	83	moderate decrease
Earnings before taxes (in EUR k)	1,763	strong increase

FORECAST FINANCIAL PERFORMANCE INDICATORS

For 2017, we anticipate only minimal changes in the financial performance indicators which will primarily hinge on the further operative planning to incorporate the acquisition of the Luxembourg Sal. Oppenheim companies. As a direct consequence of this acquisition and the measures taken with Fosun to boost growth and efficiency, the performance indicators in subsequent years may differ widely from our forecasts to date.

The negative return on equity in the reporting year is mainly explained by special effects in connection with risk provisions and the decrease in deferred taxes following the forfeit of tax loss carryforwards when Fosun acquired the shares. Until 2019, we forecast a sharp increase in return on equity.

SUMMARY OF FORECAST DEVELOPMENT

We expect the market to remain dominated by low interest rate policies and rising regulatory requirements. As we see it today, we have adequately taken the prolonged adverse market environment into account in our forecasts.

The consequences of the acquisition of the fund platform business in Luxembourg from Deutsche Bank will shape our development over the next few months and will be a huge drain on our resources. The acquisition of the successful Sal. Oppenheim fund platform business in Luxembourg will enhance both our Asset Servicing segment and our service offering, and will greatly strengthen our market position and allow us to offer our clients an even wider range of services. This is an important milestone on the path to realizing our growth strategy together with our new owner Fosun.

The realignment and enhancement of our IT architecture, infrastructure and processes are another building block that will enable us to master the challenges of future years.

OPPORTUNITIES

The change of ownership has set the course for our future. As the new majority owner, Fosun will bring new and promising development and growth prospects for our Bank. The financial strength of our new owner and partner will enable to us to enhance and internationalize the range of services we offer in our core business segments. Via Fosun's large network, we – and our customers – gain prime access to the expanding Chinese market as well as to other Asian growth markets and Chinese companies. Together we aim to strengthen the ties between German and Chinese business.

We regard the acquisition of Sal. Oppenheim's Luxembourg fund platform business as a huge opportunity to expand our business model internationally. It will allow us to take on volumes of business which will put us on the map as a business partner for new client groups and create good opportunities for our further growth.

The challenging low interest rate environment and the rising regulatory requirements call for improvements in efficiency and effectiveness. The realignment and enhancement of our IT architecture, infrastructure and processes are another building block that will enable us to master the challenges of future years.

RISK REPORT

Risks are managed at the group level. Except where indicated otherwise, the following statements therefore always refer to the Group.

ORGANIZATION OF RISK MANAGEMENT

The objectives of our group-wide risk management system are to identify, measure and control the risks arising from the various business activities, to optimally manage risks and returns and ensure adequate equity to cover the risks entered into. Our risk management activities support sustainable development and safeguard the Group's viability.

Key elements of our risk management activities are the risk strategy, our risk-bearing capacity concept, and our internal framework of policies and organizational structures as well as measuring and monitoring processes that are aligned to the respective business activities.

The risk strategy contains the general definition of targets for the management of risk in key business activities and is closely aligned with the business strategy. It comprises risk policies and defines our risk appetite, which represents the ratio between risk tolerance and risk-bearing capacity. It also defines how we handle quantifiable and non-quantifiable risks.

In our risk strategy we allocate risk capital to the business segments and types of risk in such a way as to ensure our Group's risk-bearing capacity. Risk capital is defined to manage capital efficiently and to limit risk. Besides a risk-oriented approach, a sufficient return is another premise for the business activity in order to further improve risk-bearing capacity and the capital base. Risk-bearing capacity is one of the key indicators used in our Group's global bank management process, alongside the regulatory ratios and target returns.

Our risk-bearing capacity concept determines the risk-taking potential, i.e., the capital generally available to the Institution to cover the significant quantifiable and non-quantifiable risks and which can actually be used to cover such risks. Risk-taking potential is divided into categories denoting different levels of liquidity and availability. This means that when a loss is incurred, assets are sold according to their liquidity.

Risk-bearing capacity is calculated monthly according to the gone concern approach with a confidence level of 99.9 %.

The Managing Partners have overall responsibility for risk and capital management within the Group. The Chief Financial Officer (CFO) is not involved in front office activities and is responsible for risk management in respect of our credit, market, liquidity, operational and strategic risks; this person also controls the risk capital within the Group. The Supervisory Board monitors our risk and capital profile at regular intervals, at least quarterly. Group Internal Audit reviews risk management activities at regular intervals on the basis of the internal audit plan.

Risks are monitored at the operational level by Group Risk Controlling, where they are identified, analyzed, evaluated, monitored and reported transparently to the Managing Partners to enable adequate control mechanisms to be put in place.

There are two risk committees as overarching bodies for the decision-makers within the organizational units, who continue to be responsible for risk management at the operational level:

1. The Asset/Liability Committee, which meets monthly, reports on the asset/liability management situation, the risk-bearing capacity (i.e., the capital and risk situation), and the development of the regulatory ratios within the Group.
2. The OpRisk Committee deals with all operational risks, especially those relating to the business processes in the front office and back office units.

The following main changes in methods occurred in risk management in 2016:

- Reputational risks are no longer modeled as a separate risk type. Instead, stress tests are conducted to determine their impact on the primary risks, especially on income and liquidity risks.
- Application of OTC derivative netting when calculating (bank) counterparty risk using the mark-to-market method
- Migration to the Credit Risk+ model for counterparty credit risk in performing loans in customer lending business (including money market transactions and derivatives), investment fund holdings and equity investments
- Modeling of a blanket residual uncertainty for unprovisioned portions of non-performing loans
- Switch from a contract-based approach to an economic approach (substance over form) in internal short-term liquidity risk monitoring

In addition to the annual intradepartmental review of the risk control processes, methods and models, the Bank's risk management activities are subject to an annual audit by Internal Audit.

RISK TYPES

Our risk management activities cover all types of risk that are relevant for the Group in the following categories:

- Counterparty credit risk
- Market risk
- Liquidity risk
- Operational risk
- Strategic risk
- Concentration risk

Counterparty credit risk is the risk of losses resulting from a deterioration in the creditworthiness or the default of business partners (counterparties). Counterparty credit risk is found in our lending and securities business, the counterparty risk from derivative and money market transactions as well as our investment risks. As of 31 December 2016, the risk capital charge for counterparty credit risk totaled EUR 73.21m (31 December 2015: EUR 100.91m) and represented 63.5 % of the total risk capital requirement (31 December 2015: 62.1 %).

Figure 1 shows the breakdown according to business type in percent.

Precisely defined lines of authority and standards for lending and investment decisions help to diversify risk and minimize our counterparty credit risk. In our lending business (with private individuals and business clients) we use an external risk classification procedure to rate the creditworthiness of our customers. We use a standardized procedure for valuing collateral. In Treasury, we draw on assessments by external rating agencies for our decisions on investments in government, bank and corporate bonds. Our Treasury strategy defines the classes of issuer, minimum ratings and maximum volumes per issuer, as well as the allocation of capital. In addition, we apply procedures for the early identification of loan exposures that are at risk of default. They enable us to effectively control these exposures and to maximize the rate of recovery.

We use a market value-based credit portfolio model for quantifying the counterparty credit risk in our Treasury positions. Since 30 September 2016 we have been using the loan portfolio model Credit Risk+ to calculate counterparty credit risk in our customer lending business. Our risk capital charge is equal to the value at risk (VaR) based on a confidence level of 99.9 %.

Our loan and Treasury portfolios are assembled with a view to the desired rating grades. The breakdown in Figure 2 is based on an external risk classification procedure. Category 16 represents defaults. The breakdown of the Treasury portfolio (in Figure 3) is based on the customary market ratings.

Provisions for risks were recognized on the basis of the current outstandings on individual problem loans, taking into consideration the liquidation value of the available collateral. When calculating the liquidation value, particular consideration was given to liquidation risks (e.g., delays). Any unsecured portion remaining after calculation of the liquidation value is subject to strict risk provisioning, with any anticipated deviations from this procedure requiring approval by the Managing Partners. A detailed description of how risk provisioning is calculated is provided in procedural instructions in the loan manual and in the Bank's disclosure report.

FIGURE 1

BREAKDOWN OF COUNTERPARTY CREDIT RISK

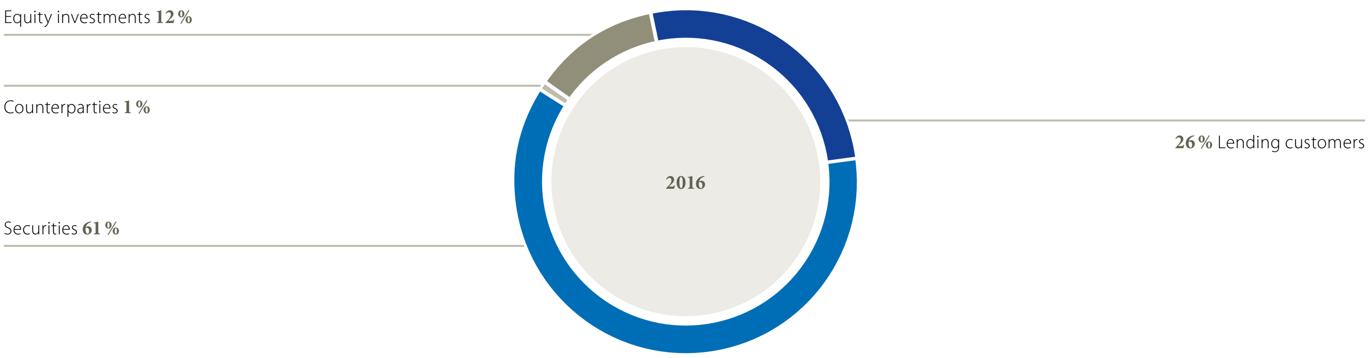


FIGURE 2

CREDIT RATING CATEGORIES ACCORDING TO UTILIZATION

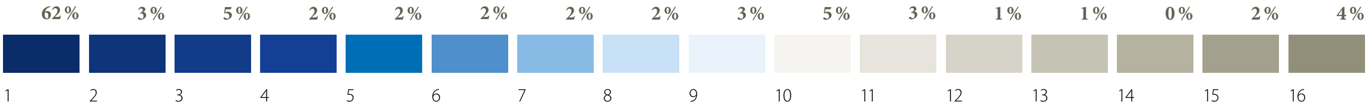


FIGURE 3

BREAKDOWN OF TREASURY HOLDINGS BY RATING GRADE

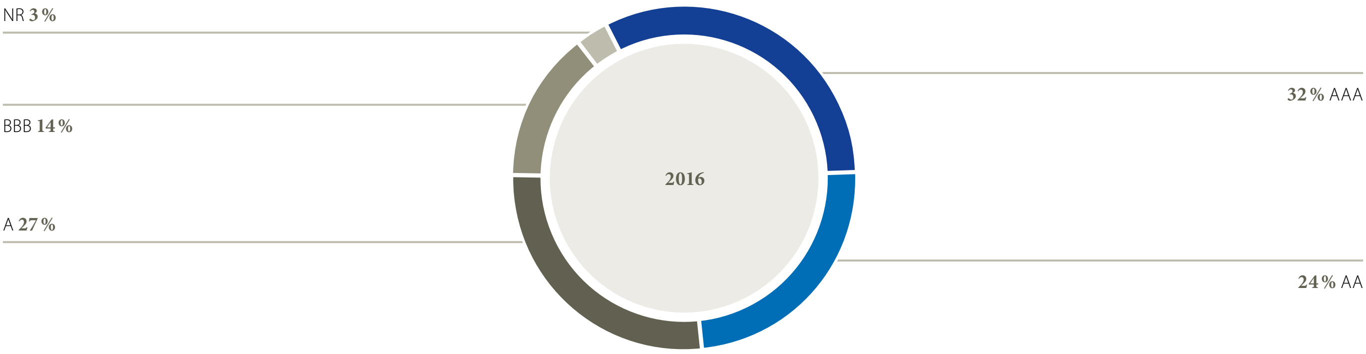
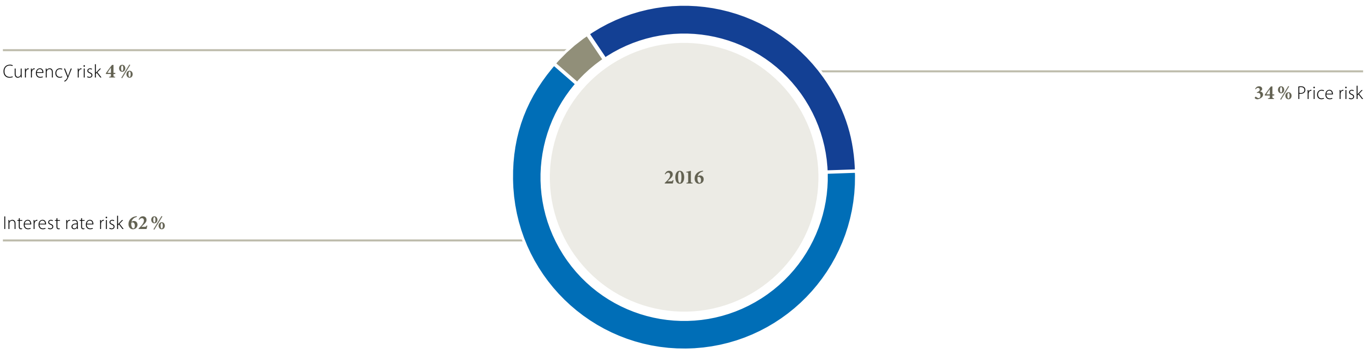


FIGURE 4

BREAKDOWN OF MARKET RISK



The high quality of our credit portfolio is reflected in the low default rate, which has averaged 0.5 % of total loans outstanding to customers over the last five years (0.5 % in the prior year). There are no material country risks.

Market risks relate to trading and investment transactions and arise as a result of changes or fluctuations in interest rates and exchange rates or in the prices of equities, investment fund units, etc. There are no risks relating to commodities and other market risks. Figure 4 shows the breakdown of the three types of price risk (price, interest rate and currency risk) at group level in percent.

The market risks presented by our trading and investment portfolios are monitored daily on the global bank level. We also apply loss limits to control the performance of our portfolios.

We determine the risk capital charge for market risks using the value-at-risk method on the basis of historical data for the previous 260 trading days. This expresses the maximum present value loss which is not exceeded with a confidence level of 99.9 % and a holding period of 90 days. The risk capital charge for market risks as of 31 December 2016 was EUR 15.1m (31 December 2015: EUR 11.9m) and was equivalent to 13.1 % of our total risk capital requirement (31 December 2015: 7.3 %). Group Risk Controlling tests the quality of the value-at-risk values determined for the entire market risk category daily by comparing the VaR figures (confidence level: 99.9 %, holding period: one day) with the hypothetical results for an identical portfolio (clean backtesting). The clean backtest showed that the VaR model used in 2016 was valid. The results of the hypothetical and historical stress tests were within the prescribed market risk limit.

Liquidity risks are not covered by risk capital but are controlled and monitored by suitable procedures. Assuring our Group's liquidity at all times is the role of Treasury. It identifies, analyzes and controls our cash flows. Liquidity risks are monitored daily by Group Risk Controlling.

Our internal model for monitoring and controlling liquidity risks distinguishes four forms of liquidity risk: Insolvency, liquidity transformation, asset marketability or liquidity risk, market liquidity risk; market liquidity risk is defined as the threat to market liquidity in the sense of money supply.

Our liquidity management involves restricting Treasury investments to liquid markets (as of 31 December 2016, EUR 1,166m in ECB-eligible securities), controlling the liquidity ratio and includes stress situations and scenario analyses. The latter also take into account the marketability of the securities in the liquidity buffer (counterbalancing capacity) and, because of the short-term deposit structure, relate to periods of up to three months. As of 31 December 2016, the available net liquidity positions for the relevant (stress) scenarios were as follows:

FIGURE 5

CUMULATIVE POSITIONS FOR THE PERIODS

	3 days	1 month	3 months
Normal scenario	1,297	1,191	1,143
Stress scenario	869	684	680
Reputational stress	1,181	945	899

In the last few years, the parent bank comfortably exceeded the prescribed minimum liquidity ratio of 1.0; as of 31 December 2016, its liquidity ratio was 3.74 (31 December 2015: 3.52).

The results of scenario analyses and stress scenarios were at all times below the defined limits.

Additionally, the marketability of the securities in the liquidity buffer is monitored daily through market valuations (unrealized gains and losses) in the market risk reporting. The risks to marketability or market liquidity are quantified when calculating the counterparty credit risk for securities by factoring in credit spread risks.

Our Group refinances its assets through different types of customer deposits, in particular from private and business clients as well as from our fund business. These have grown steadily over the years and embody sensitivities that we take into account when reinvesting the funds. We therefore view the management of reputational risk as the most important steering instrument for maintaining our refinancing capacity. In the last few years, the parent bank comfortably exceeded the prescribed minimum liquidity ratio of 1.0; as of 31 December 2016, its liquidity ratio was 3.74 (31 December 2015: 3.52).

Operational risk relates to potential losses that can arise as a result of inadequate or failed processes, people and systems, fraud or from external events. Legal risk is a subset of operational risk.

We control operational risk with a comprehensive risk management framework that includes extensive organizational instructions, the regulation of lines of authority, workplace guidelines, etc. A key principle in developing and updating this framework is the integration of all of the Bank's subsidiaries, business segments and departments. The risk capital charge for operational risk based on our internal model (value at risk with a confidence level of 99.9 %) corresponds to 18.2 % of our risk capital requirement as of 31 December 2016 (31 December 2015: 11.9 %).

To be able to measure operational risk, we maintain a database for operational incidents at group level and conduct an annual risk self-assessment (internal reporting process).

Strategic risk is a major risk to our business model. We classify strategic risks as either business risks or reputational risks.

Business risks comprise risks to income and cost risks, the management of which is the responsibility of the core business segments and the competent Managing Partners and is based on independent figures provided by the Financial Controlling department. The risk capital charge for this type of risk is calculated on the basis of historical planning variances in gross income (31 December 2016: 5.2 % of our risk capital requirement; 31 December 2015: 4.3 %).

Reputational risks refer to the threat of declines in income or losses, a deterioration in liquidity or a reduced business value caused by events which damage stakeholder confidence in the Hauck & Aufhäuser Group. In light of this definition, they are not viewed as a separate type of risk but are treated as a part, and potential amplifier, of income and liquidity risks. The responsibility for managing reputational risk rests with the core business segments and their competent Managing Partners. They are supported in this task by the neutral Quality Management office.

The Institution uses stress testing to specify possible future changes in general economic conditions and to analyze how far we are able to withstand particularly negative influences of that kind in terms of our regulatory and economic capital base. It also serves to analyze and make provision for procyclical developments in our regulatory capital requirements. Stress testing therefore has a broader application than just assessing the regulatory or economic capital base. Our hypothetical, historical and reverse stress tests use stressed parameters such as spread widening, deteriorating credit quality, or heightened volatility, etc., and are calculated monthly.

Concentration risk mainly arises for us from an unequal distribution of the outstanding accounts of individual debtors. It is controlled ex ante by setting credit limits for individual customer categories and monitored ex post by quantifying the counterparty credit risk.

INTEREST RATE RISK IN THE BANKING BOOK

The interest rate risk was assessed on the basis of the net realizable value of the banking book determined using the present value method. Unrealized gains remained after deduction of risk and pro rata administration costs.

TOTAL RISK EXPOSURE

Our risk management activities have proven to be reliable in recent years and provided the basis for assuring our risk-bearing capacity at all times in the past year.

Figure 6 shows the allocation of risk capital charge by type of risk for the Bank:

Risk-taking potential at the level of the Bank

The reduction in the utilization of risk-taking potential at the level of the Bank from 92.8 % as of 31 December 2015 to 69.2 % as of the balance sheet date is mainly due to the changes in methodology relating to counterparty credit and reputational risks described above. In 2016, the average utilization was 80 % (92.1 % in 2015).

As of the balance sheet date, the Bank had eligible own funds of EUR 162.0m and risk-weighted exposures of EUR 1,098.4m, resulting in an overall ratio of 14.75 % (31 December 2015: 14.08 %).

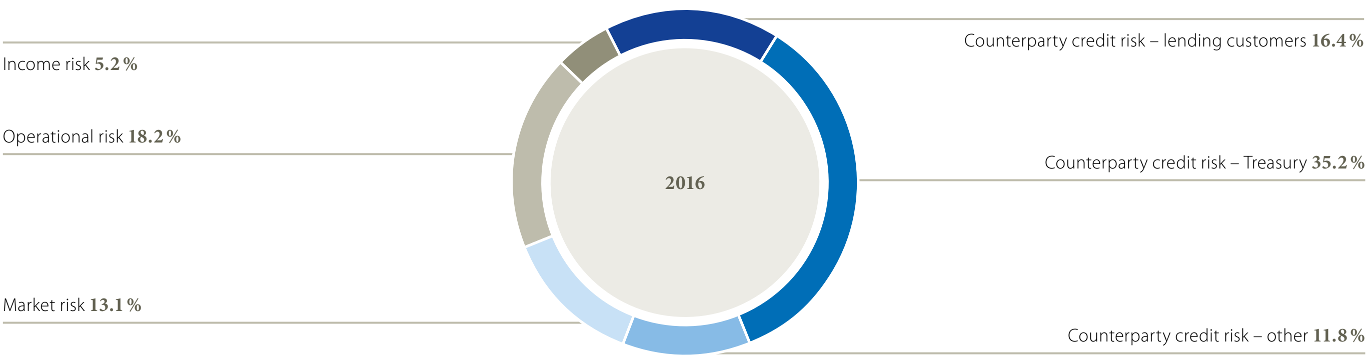
Risk-taking potential in the Group

The reduction in the utilization of risk-taking potential at the level of the Group from 92.8 % as of 31 December 2015 to 68.8 % as of the balance sheet date is mainly due to the changes in methodology relating to counterparty credit and reputational risks described above. In 2016, the average utilization was 80 % (92.1 % in 2015).

As of the balance sheet date, the Group had eligible own funds of EUR 161.4m and risk-weighted exposures of EUR 1,102.8m, resulting in an overall ratio of 14.63 % (31 December 2015: 13.42 %).

FIGURE 6

ALLOCATION OF RISK CAPITAL CHARGE



OTHER DISCLOSURES ON RISKS

Over the coming years, managing legal and regulatory requirements and improving the cost-efficient platform for providing our services will also entail considerable long-term investment and additional administrative expenditure, which may need to be offset through the implementation of further measures.

The consequences of the acquisition of the fund platform business in Luxembourg from Deutsche Bank will shape our development over the next few months and will be a huge drain on our resources. The successful integration of the Luxembourg Sal. Oppenheim entities will start to have a huge impact on our forecasts in 2017; it will depend to a large extent on the supervisory authorities involved and their assessment, and may be subject to regulatory conditions. Like all other banks, our risk provisioning is subject to uncertainty and depends on the general economic development and the level of issuer, investment or collateral risks in the lending business and any related current or future legal disputes and court proceedings. Swings in either direction could have a positive or negative impact on the forecast earnings.

GENERAL STATEMENT ABOUT THE RISK REPORT

No risks to the Bank's or the Group's ability to continue as a going concern were identified in the fiscal year, nor are any foreseen for the following 12 months.

RISK REPORTING RELATING TO THE USE OF FINANCIAL INSTRUMENTS

We only use derivative financial instruments to hedge risk and not for speculative purposes.

REMUNERATION REPORT

The remuneration policy of Hauck & Aufhäuser is intended to foster a sustainable and values-oriented culture and an entrepreneurial spirit among our employees. It is, therefore, aligned with the principles of transparency and job security and is dependent on performance and results.

Target remuneration at Hauck & Aufhäuser comprises two remuneration components: a monthly basic salary and a variable remuneration component. The remuneration schemes of the group companies in Luxembourg and Switzerland are primarily aligned with the regulations customary in those countries.

The requirements of the InstitutsVergV ["Institutsvergütungsverordnung": German Ordinance Regarding the Supervisory Requirements for Remuneration Systems of Institutions] are applied and are detailed in the disclosure report, part II, Disclosure in accordance with the InstitutsVergV, which can be downloaded in pdf format from https://www.hauck-aufhaeuser.com/newsroom/newsroom.

CONCLUDING STATEMENT OF THE DEPENDENT COMPANY REPORT

Bridge Fortune Investments S.à r.l., a Fosun Group company, holds 99.9 % of the capital stock of Hauck & Aufhäuser and thus has a safe majority in the annual general meeting, making Hauck & Aufhäuser a dependent company. Hauck & Aufhäuser has not signed a domination and profit and loss transfer agreement with Bridge Fortune Investments S.à r.l.

The Personally Liable Partner and the other partners have prepared a report on relationships with affiliates pursuant to Sec. 312 AktG ["Aktiengesetz": German Stock Corporation Act] (dependent company report). At the end of this report, the Managing Partners stated:

"The Managing Partners declare that, based on the circumstances known at the time when the specified legal transactions or actions were carried out, appropriate consideration was received for every legal transaction. No acts were undertaken or omitted in the interests or at the instigation of the controlling company Fosun or its affiliates."

VOLUNTARY DECLARATION

To the best of our knowledge, we confirm that the management report gives a true and fair view of the development, performance and position of Hauck & Aufhäuser Privatbankiers KGaA, and also describes the principal opportunities and risks relating to the expected future development of Hauck & Aufhäuser.

Frankfurt am Main, 21 March 2017

Michael O. Bentlage

Jochen Lucht

Hauck & Aufhäuser Geschäftsleitungs GmbH

Michael O. Bentlage

Stephan Rupprecht

CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2016

Assets	EUR	EUR	EUR	EUR	Prior year EUR k
1. Cash reserve					347
a) Cash on hand			280,596.65		216,958
b) Balances at central banks thereof: at Deutsche Bundesbank	470,796,087.19		479,057,784.30		(210,200)
				479,338,380.95	217,305
2. Loans and advances to banks					
a) Payable on demand			90,818,655.50		196,868
b) Other loans and advances			10,645,310.44		51,493
				101,463,965.94	248,361
3. Loans and advances to customers				402,201,671.39	436,871
thereof: secured by real property liens	0.00				(0)
public-sector loans	26,332,816.20				(26,835)
4. Debt securities and other fixed-income securities					
a) Money market securities					
aa) issued by the public sector thereof: eligible as collateral with Deutsche Bundesbank	30,037,545.80	30,037,545.80			59,962 (59,962)
ab) issued by other borrowers thereof: eligible as collateral with Deutsche Bundesbank	0.00	60,008,368.24	90,045,914.04		74,969 (44,992)
b) Bonds and debt securities					
ba) issued by the public sector thereof: eligible as collateral with Deutsche Bundesbank	317,691,134.28	317,691,134.28			336,373 (329,696)
bb) issued by other borrowers thereof: eligible as collateral with Deutsche Bundesbank	786,165,813.17	906,369,083.42	1,224,060,217.70		1,074,350 (930,849)
				1,314,106,131.74	1,545,654
5. Shares and other variable-yield securities				160,459,551.62	108,782
5a. Trading book positions				897,051.32	357
6. Equity investments				8,025,994.09	9,542
thereof: in banks	0.00				(0)
thereof: in financial services institutions	0.00				(0)
7. Shares in affiliates				2,658,082.00	3,935
thereof: in banks	0.00				(0)
thereof: in financial services institutions	0.00				(0)
8. Trust assets				224,832,670.47	230,118
thereof: trust loans	155,678,373.78				(157,065)
9. Intangible assets					
a) Purchased franchises, industrial and similar rights and assets			2,105,236.93		2,895
b) Goodwill			2,847,291.03		4,568
c) Prepayments			2,309,517.34		512
				7,262,045.30	7,975
10. Property and equipment				12,407,597.26	13,263
11. Other assets				305,478,821.46	270,252
12. Prepaid expenses				6,467,547.13	6,774
13. Deferred tax assets				11,177,149.20	15,158
14. Excess of covering assets over pension and similar obligations				620,175.74	531
Total assets				3,037,396,835.61	3,114,878

CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2016

Liabilities and equity	EUR	EUR	EUR	EUR	Prior year EUR k
1. Liabilities to banks					
a) payable on demand			97,542,315.42		233,871
b) With an agreed term or period of notice			107,105,139.22		73,558
				204,647,454.64	307,429
2. Liabilities to customers					
a) Savings deposits					
aa) with an agreed period of notice of three months		586,098.30			1,157
ab) with an agreed period of notice of more than three months		55,295.10	641,393.40		100
b) Other liabilities					
ba) payable on demand		2,290,818,433.45			2,130,844
bb) with an agreed term or period of notice		65,474,356.62	2,356,292,790.07		175,274
				2,356,934,183.47	2,307,375
3. Securitized liabilities					
Debt securities issued				38,858.17	39
4. Trust liabilities				224,832,670.47	230,118
thereof: trust loans:	155,678,373.78				(157,065)
5. Other liabilities				16,259,550.42	23,518
6. Deferred income				11,908,021.79	11,828
7. Provisions					
a) Provisions for pensions and similar obligations			15,358,325.00		16,168
b) Tax provisions			7,860,556.76		4,188
c) Other provisions			25,170,810.80		32,330
				48,389,692.56	52,686
8. Participation certificate capital				0.00	30
thereof: due within two years	0.00				(30)
9. Fund for general banking risks				4,427,220.68	3,929
10. Equity					
a) Subscribed capital			16,000,000.00		16,000
b) Capital reserves			56,044,795.91		56,045
c) Revenue reserves					
ca) Other revenue reserves	102,120,049.99		102,120,049.99		98,743
d) Currency translation/exchange differences			184,877.74		171
e) Accumulated loss (prior year: net retained profit)			−6,829,072.81		4,528
				167,520,650.83	175,487
11. Negative consolidation difference				2,438,532.58	2,439
Total liabilities and equity				3,037,396,835.61	3,114,878
1. Contingent liabilities					
Guarantees				11,816,629.87	6,072
2. Other obligations					
Irrevocable loan commitments				137,840,475.93	138,739

CONSOLIDATED INCOME STATEMENT
FOR THE PERIOD FROM 1 JANUARY 2016 TO 31 DECEMBER 2016

Expenses	EUR	EUR	EUR	Prior year EUR k
1. Interest expenses			4,567,231.19	4,475
thereof: negative interest	0.00			(0)
2. Commission expenses			18,562,068.67	21,264
3. General and administrative expenses				
a) Personnel expenses				
aa) Wages and salaries	52,300,492.71			59,908
ab) Social security, pension and other benefit costs thereof: for old-age pensions	8,792,916.06 1,558,761.82	61,093,408.77		8,486 (1,529)
b) Other administrative expenses		41,671,557.21		44,778
			102,764,965.98	113,172
4. Amortization, depreciation and write-downs of intangible assets and property and equipment			5,225,238.11	6,404
5. Other operating expenses			2,047,078.03	4,674
6. Write-downs of and allowances on loans and advances and certain securities as well as allocations to provisions for possible loan losses			10,097,797.90	0
7. Write-downs of equity investments, shares in affiliates and investment securities			3,747,083.28	0
8. Allocations to the fund for general banking risks			336,492.82	203
9. Income taxes			9,024,458.83	0
thereof: deferred taxes	3,980,810.53			(0)
10. Other taxes not disclosed under item 5			716,163.06	43
11. Net income for the year			0.00	4,851
Total expenses			157,088,577.87	155,086

CONSOLIDATED INCOME STATEMENT
FOR THE PERIOD FROM 1 JANUARY 2016 TO 31 DECEMBER 2016

Income	EUR	EUR	EUR	Prior year EUR k
1. Interest income from				
a) Lending and money market business thereof: negative interest	3,113,537.67	13,320,962.95		14,601 (900)
b) Fixed-income securities and government-inscribed debt		8,057,279.11		10,918
			21,378,242.06	25,519
2. Current income from				
a) Shares and other variable-yield securities		1,463,202.41		1,276
b) Equity investments		860,755.05		827
			2,323,957.46	2,103
3. Income from profit pooling and profit and loss transfer agreements			403,435.82	527
4. Commission income			109,836,929.97	107,307
5. Net income from trading book positions			5,370,427.61	4,081
6. Income from write-ups of loans and advances and certain securities and from the reversal of provisions for possible loan losses			0.00	2,427
7. Income from write-ups of equity investments, shares in affiliates and investment securities			0.00	731
8. Other operating income			9,797,590.05	12,132
9. Income from income taxes			0.00	259
thereof: income from deferred taxes	0.00			(2,563)
10. Net loss for the year			7,977,994.90	0
Total income			157,088,577.87	155,086
1. Net loss for the year (prior year: net income)			−7,977,994.90	4,851
2. Profit carryforward from the prior year (prior year: loss carryforward)			1,148,922.09	−323
3. Accumulated loss (prior year: net retained profit)			−6,829,072.81	4,528

The annual report contains abridged versions of the consolidated financial statements and the annual financial statements of the parent company. The annual financial statements are published in the German Federal Gazette. The disclosure report is available for download on our website: https://www.hauck-aufhaeuser.com/newsroom/newsroom.

COMBINED NOTES TO THE FINANCIAL STATEMENTS AND TO THE CONSOLIDATED FINANCIAL STATEMENTS OF HAUCK & AUFHÄUSER PRIVATBANKIERS KGAA (EXCERPT)

BASIS OF FINANCIAL REPORTING

The financial statements of the Bank and the Group for fiscal year 2016 were prepared in accordance with the provisions of the HGB for large corporations, the KWG ["Kreditwesengesetz": German Banking Act], the AktG ["Aktiengesetz": German Stock Corporation Act] and the RechKredV ["Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute": German Bank Accounting Directive].

BASIS OF CONSOLIDATION

The consolidated balance sheet and the consolidated income statement are dominated by the financial statements of Hauck & Aufhäuser. A total of six companies (prior year: six) were included in the consolidated financial statements:

- Hauck & Aufhäuser Privatbankiers KGaA, Frankfurt am Main
- Hauck & Aufhäuser Investment Gesellschaft S.A., Luxembourg
- Hauck & Aufhäuser Alternative Investment Services S.A., Luxembourg
- Hauck & Aufhäuser (Schweiz) AG, Zurich
- FidesKapital Gesellschaft für Kapitalbeteiligungen mbH, Munich (formerly Hauck & Aufhäuser Corporate Finance AG, Frankfurt am Main)
- Hauck & Aufhäuser Geschäftsleitungs GmbH, Frankfurt am Main

The financial statements of the consolidated companies had the same balance sheet date as the consolidated financial statements (31 December) and are prepared in euros, with the exception of Hauck & Aufhäuser (Schweiz) AG, which prepares its accounts in Swiss francs.

Pursuant to Sec. 296 (1) Nos. 2 and 3 HGB, we waived the option of including the indirect interest in MS Rike Gebr. Ahrens GmbH & Co. KG as the information required for the preparation of the consolidated financial statements was not available without undue delay. These shares were held for sale.

All other group companies have not been consolidated since they are, pursuant to Sec. 296 (2) HGB and Sec. 311 (2) HGB, of secondary importance for the Group's net assets, financial position and results of operations, or inclusion could be waived pursuant to Sec. 296 (1) HGB. In the fiscal year, the following 13 (prior year: 8) group companies were not included in the consolidated financial statements:

- easyfolio GmbH, Frankfurt am Main (new from 2016)
- Fopex GmbH, Munich-Pullach
- Hauck & Aufhäuser Verwaltungs GmbH, Munich
- Hauck & Aufhäuser Pension Trust GmbH, Frankfurt am Main
- HI-Management S.à r.l., Luxembourg
- Medienlogistik Stuttgart Service GmbH, Stuttgart
- MS "Rike" Gebr. Ahrens GmbH & Co. KG
- Projektentwicklungsgesellschaft Maybach 1 mbH & Co. KG, Memmingen
- Projektentwicklungsgesellschaft Maybach 2 mbH & Co. KG, Memmingen
- Projektentwicklungsgesellschaft Maybach 3 mbH & Co. KG, Memmingen
- Projektentwicklungsgesellschaft Maybach 4 mbH & Co. KG, Memmingen
- Projekt Maybach Beteiligungs GmbH, Memmingen
- ZV Service GmbH, Munich

CONSOLIDATION PRINCIPLES

Acquisitions made before 1 January 2010 were accounted for using the book value method (Sec. 301 (1) Sentence 2 No. 1 HGB, unrevised) by netting the book values of the parent company with the relevant share of the subsidiaries' equity on the date of first-time consolidation.

The positive differences of EUR 5,821k (prior year: EUR 5,821k) resulting from acquisitions made prior to 1 January 2010 were offset against the other revenue reserves.

The negative differences of EUR 2,439k (prior year: EUR 2,439k) were stated under equity as a "Negative consolidation difference."

Acquisitions made after 1 January 2010 were accounted for using the revaluation method (Sec. 301 (1) Sentence 2 HGB, revised) by netting the book values of the parent company with the relevant share of the subsidiaries' equity on the date on which the entity became a subsidiary.

Receivables and liabilities relating to trade between group companies were offset. A similar procedure was adopted with regard to the balance sheet footnotes on the liabilities side. Intercompany income and expenses were also netted. There were no intercompany profits and losses to be eliminated.

CHANGES IN THE STRUCTURE OF THE CONSOLIDATED GROUP

Having received approval from the regulatory authorities, Hauck & Aufhäuser is now majority owned by Bridge Fortune S.à r.l., Luxembourg, which itself is an indirect holding of Fosun International Holdings Ltd., British Virgin Islands. The change of ownership did not result in any changes in the structure of the Group in the fiscal year.

Since May 2016, Hauck & Aufhäuser has wholly owned easyfolio GmbH, a leading online investment provider. The Bank has thus strengthened its digital investment profile, whereas easyfolio investors benefit from Hauck & Aufhäuser's professional asset manager skills.

easyfolio enables easy, individual and transparent online investment. Using its online platform, investors can compile their own personal investment portfolios based on low-cost exchange-traded funds permitting global and diversified investment. Since it was established in 2014, easyfolio has steadily grown its invested funds, making it one of the leaders in the German robo advisor market.

As of 1 August 2016, we converted our representative office in London to a branch. The European passport was used to obtain regulatory approval.

FOREIGN CURRENCY TRANSLATION

All assets and liabilities denominated in a foreign currency were translated into euros at the ECB's euro foreign exchange reference rate for the relevant foreign currency as of the balance sheet date. Hedged items were valued at the settlement value of their matching hedging transactions. Open forward exchange transactions were translated at the forward rate as of the balance sheet date. Exchange rate fluctuations in the market value of trading book positions were adjusted using a risk discount.

Income resulting from currency translation is recorded under other operating income. Any gains or losses on pending transactions are only recognized in profit or loss when due.

Except for equity, the balance sheet of Hauck & Aufhäuser (Schweiz) AG was translated at the ECB's closing euro foreign exchange reference rate on the balance sheet date.

Equity was translated at the historical rate. Any exchange differences arising from the translation of equity were recognized in "Currency translation/exchange differences" under consolidated equity.

The items of the income statement of Hauck & Aufhäuser (Schweiz) AG are translated into euros at the average ECB reference rate. The resulting translation difference was recognized in "Currency translation/exchange differences" under consolidated equity.

ACCOUNTING AND VALUATION METHODS

The financial statements of the Bank and the Group were prepared using the following uniform group accounting and valuation principles based on the HGB as supplemented by the provisions of the RechKredV.

Specific bad debt allowances and provisions were recognized to sufficiently provide for all identifiable risks. Sufficient general bad debt allowances were recognized to cover potential risks.

All loans and advances are valued at acquisition cost less any write-downs. Loans and advances disbursed at a premium or discount are recorded at the nominal value, with differences being recognized as deferred income or prepaid expenses in accordance with Sec. 340e (2) HGB and amortized.

Investment portfolio financial instruments were valued using the modified lower of cost or market value principle. The option under Sec. 253 (3) Sentence 4 HGB was not exercised. Financial assets were valued at acquisition cost applying the modified lower of cost or market value principle. Financial futures and forward rate agreements (FRAs) in the investment portfolio were accounted for using the rules for pending transactions upon initial recognition. Initial margins paid were recognized under "Other assets." Wherever the initial margin was paid by pledging securities rather than in cash, the pledged securities were retained in the original balance sheet item. The variation margins were adjusted during the year in line with the changed value of the futures, with no effect on profit and loss. For outstanding futures contracts, the variation margins are recognized in "Other assets" or "Other liabilities." Unless they were part of a hedge pursuant to Sec. 254 HGB, trades were valued separately on the balance sheet date at the market rate. The variation margins paid and received upon closing for futures and the settlement payments for FRAs were recognized in full in the income statement to the extent that no unrealized loss had already been accounted for.

Financial instruments allocated to the liquidity reserve were valued according to the strict lower of cost or market principle.

Trading book financial instruments were valued in accordance with Sec. 340e (3) HGB at fair value based on their current market prices less a risk discount. Due to the small volume of the trading book, the risk discount was calculated using a simplified method and not in accordance with Sec. 35 (1) No. 6a RechKredV. In other cases, the risk discount is calculated using the value at risk (VaR) approach for a confidence level of 99.9 %, a holding period of 90 days and a 260-day observation period. The provisions of Sec. 340e (4) HGB relating to allocations to the special item for general banking risks were observed. Financial instruments were allocated to the trading book when they were acquired with the intention to make a profit in the short term.

Property and equipment were valued at acquisition cost less depreciation charged over their standard useful lives. The official tax depreciation tables are used to determine the standard useful lives for property and equipment.

Depletable movable fixed assets whose acquisition costs do not exceed EUR 150 are expensed in full in the year of acquisition as low-value assets (Sec. 253 HGB within the meaning of Sec. 6 (2) EStG ["Einkommensteuergesetz": German Income Tax Act]).

Low-value depletable movable fixed assets costing between EUR 150 and EUR 1,000 were collated in a collective item and were depreciated by 20 % (pooled depreciation) in the first fiscal year and in each of the four following fiscal years.

In contrast to the method of accounting used in the Bank (Germany), the Luxembourg subsidiaries and the Luxembourg branch expensed low-value depletable assets costing less than EUR 870 in the year of acquisition.

In contrast to the method of accounting applied in the Bank, the Swiss subsidiary expensed low-value depletable assets costing less than CHF 1,000 in its separate financial statements in the year of acquisition.

Liabilities were reported at the amount due to settle the liabilities at the maturity date (settlement value), and, irrespective of their remaining life, were not discounted unless they represented pension obligations.

A monthly pension is paid to men of 65 or more or women of 60 or more, or earlier in the case of invalidity. The pension comprises a basic payment plus increments. The reference value is a basic salary (pensionable income), which can vary depending on the respective pension plan. Provisions for pension obligations for the Personally Liable Partners and employees were allocated at the net present value calculated on the basis of external actuarial reports.

Phased retirement agreements are based on the block model. Allocations for deferred compensation components are stated as personnel expenses. Top-up amounts granted in addition to the standard salary are, depending on their substance, either accrued pro rata during the "active phase" or, if they are tantamount to a severance payment, stated under other operating expenses. The provision was netted with the plan assets from the employer's pension liability insurance policies and the remainder was stated as an "Excess of covering assets over pension and similar obligations." The individual provision amount is netted with the respective assets.

The annual report contains abridged versions of the consolidated financial statements and the annual financial statements of the parent company. The annual financial statements are published in the German Federal Gazette. The disclosure report is available for download on our website: https://www.hauck-aufhaeuser.com/newsroom/newsroom.

AUDIT OPINION

We have audited the consolidated financial statements prepared by Hauck & Aufhäuser Privatbankiers KGaA, Frankfurt am Main, comprising the balance sheet, the income statement, the cash flow statement, the statement of changes in equity and the notes to the financial statements, together with the group management report for the fiscal year from 1 January 2016 to 31 December 2016. The preparation of the consolidated financial statements and the group management report in accordance with German commercial law is the responsebility of the Institution's management. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB ["Handelsgesetzbuch": German Commercial Code] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with [German] principles of proper accounting and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with [German] principles of proper accounting. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Eschborn/Frankfurt am Main, 23 March 2017

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Müller-Tronnier	Pfeil
Wirtschaftsprüfer	Wirtschaftsprüferin
[German Public Auditor]	[German Public Auditor]

BALANCE SHEET AS OF 31 DECEMBER 2016

Assets	EUR	EUR	EUR	EUR	Prior year EUR k
1. Cash reserve					347
a) Cash on hand			279,811.33		216,959
b) Balances at central banks thereof: at Deutsche Bundesbank	470,796,087.19		479,057,784.30		210,200
				479,337,595.63	217,306
2. Loans and advances to banks					
a) Payable on demand			90,172,452.32		196,373
b) Other loans and advances			10,645,310.44		51,493
				100,817,762.76	247,866
3. Loans and advances to customers				382,821,935.48	418,817
thereof: public-sector loans	26,332,816.20				26,835
4. Debt securities and other fixed-income securities					
a) Money market securities					
aa) issued by the public sector thereof: eligible as collateral with Deutsche Bundesbank	30,037,545.80	30,037,545.80			59,962 59,962
ab) issued by other borrowers thereof: eligible as collateral with Deutsche Bundesbank	0.00	60,008,368.24	90,045,914.04		74,969 44,992
b) Bonds and debt securities					
ba) issued by the public sector thereof: eligible as collateral with Deutsche Bundesbank	317,691,134.28	317,691,134.28			336,373 329,696
bb) issued by other borrowers thereof: eligible as collateral with Deutsche Bundesbank	786,293,601.05	906,496,871.30	1,224,188,005.58		1,074,578 931,077
				1,314,233,919.62	1,545,882
5. Shares and other variable-yield securities				159,246,769.64	107,272
a) Trading book positions				897,051.32	357
6. Equity investments				294,216.79	458
thereof: in banks	0.00				0
thereof: in financial services institutions	0.00				0
7. Shares in affiliates				26,927,085.83	26,927
thereof: in banks	0.00				0
thereof: in financial services institutions	9,931,843.57				9,932
8. Trust assets				224,708,845.27	229,862
thereof: trust loans	155,678,373.78				157,065
9. Intangible assets					
a) Purchased franchises			2,082,187.35		2,840
b) Goodwill			9,933,137.08		11,562
c) Prepayments			2,309,517.34		512
				14,324,841.77	14,914
10. Property and equipment				12,343,625.07	13,222
11. Other assets				309,597,999.07	272,544
12. Prepaid expenses				8,491,373.21	8,996
13. Deferred tax assets				11,852,436.29	16,778
14. Excess of covering assets over pension and similar obligations				620,175.74	531
Total assets				3,046,515,633.49	3,121,732

BALANCE SHEET AS OF 31 DECEMBER 2016

Liabilities and equity	EUR	EUR	EUR	EUR	Prior year EUR k
1. Liabilities to banks					
a) Payable on demand			97,505,861.45		233,761
b) With an agreed term or period of notice			107,105,139.22		73,558
				204,611,000.67	307,319
2. Liabilities to customers					
a) Savings deposits					
aa) with an agreed period of notice of three months		586,098.30			1,157
ab) with an agreed period of notice of more than three months		55,295.10	641,393.40		100
b) Other liabilities					
ba) payable on demand		2,305,153,748.29			2,143,062
bb) with an agreed term or period of notice		65,474,356.62	2,370,628,104.91		175,274
				2,371,269,498.31	2,319,593
3. Securitized liabilities					
Debt securities issued				38,858.17	39
4. Trust liabilities				224,708,845.27	229,862
thereof: trust loans	155,678,373.78				157,065
5. Other liabilities				18,173,147.00	24,413
6. Deferred income				11,875,277.00	11,827
7. Provisions					
a) Provisions for pensions and similar obligations			15,358,325.00		16,167
b) Tax provisions			7,825,152.39		4,051
c) Other provisions			22,450,177.87		29,221
				45,633,655.26	49,439
8. Participation certificate capital				0.00	30
9. Fund for general banking risks				10,202,000.00	9,950
10. Equity					
a) Subscribed capital			16,000,000.00		16,000
b) Capital reserves			56,330,600.00		56,331
c) Revenue reserves					
Other revenue reserves			96,927,552.06		92,709
d) Net retained profit			−9,254,800.25		4,220
				160,003,351.81	169,260
Total liabilities and equity				3,046,515,633.49	3,121,732
1. Contingent liabilities					
Guarantees				11,916,377.87	6,172
2. Other obligations					
a) Placement and underwriting commitments			0.00		0
b) Irrevocable loan commitments			136,024,225.93	136,024,225.93	138,154

INCOME STATEMENT OF THE PARENT COMPANY (KGAA) FOR THE PERIOD FROM 1 JANUARY 2016 TO 31 DECEMBER 2016

Expenses	EUR	EUR	EUR	Prior year EUR k
1. Interest expenses			4,540,327.60	4,463
2. Commission expenses			10,647,789.13	12,423
3. General and administrative expenses				
a) Personnel expenses				
aa) Wages and salaries	46,308,084.31			54,932
ab) Social security, pension and other benefit costs	7,887,230.69	54,195,315.00		7,725
thereof: for old-age pensions	1,444,653.99			1,461
b) Other administrative expenses		39,272,135.53		42,662
			93,467,450.53	105,319
4. Amortization, depreciation and write-downs of intangible assets and property and equipment			5,084,428.00	5,619
5. Other operating expenses			1,901,979.77	2,508
6. Write-downs of and allowances on loans and advances and certain securities as well as allocations to provisions for possible loan losses			10,115,493.39	0
7. Write-downs of equity investments, shares in affiliates and investment securities			542,757.58	0
8. Expenses from loss absorption			1,870,564.91	14
9. Income taxes			8,609,768.04	0
thereof: deferred taxes	4,925,508.02			0
10. Other taxes			715,824.85	25
11. Net income for the year			0.00	4,213
Total expenses			137,496,383.80	134,584

INCOME STATEMENT OF THE PARENT COMPANY (KGAA) FOR THE PERIOD FROM 1 JANUARY 2016 TO 31 DECEMBER 2016

Income	EUR	EUR	EUR	Prior year EUR k
1. Interest income from				
a) Lending and money market business		13,215,181.86		14,421
thereof: negative interest	3,130,973.89			906
b) Fixed-income securities and government-inscribed debt		8,020,730.27		10,817
			21,235,912.13	25,238
2. Current income from				
a) Shares and other variable-yield securities		1,088,331.98		867
b) Equity investments		50,000.00		50
c) Shares in affiliates		3,148,000.00		1,385
			4,286,331.98	2,302
3. Income from profit pooling and profit and loss transfer agreements			517.43	0
4. Commission income			86,004,550.81	86,747
5. Net income from trading book positions			5,370,427.61	4,085
6. Income from write-ups of loans and advances and certain securities and from the reversal of provisions for possible loan losses			0.00	2,395
7. Income from write-ups of equity investments, shares in affiliates and investment securities			0.00	1,441
8. Other operating income			11,342,975.69	11,424
9. Income from income taxes			0.00	952
thereof: deferred taxes	0.00			2,843
10. Net loss for the year			9,255,668.15	0
Total income			137,496,383.80	134,584
1. Net loss for the year (prior year: net income)			−9,255,668.15	4,213
2. Profit carryforward from the prior year			867.90	7
3. Accumulated loss (prior year: net retained profit)			−9,254,800.25	4,220

The annual report contains abridged versions of the consolidated financial statements and the annual financial statements of the parent company. The annual financial statements are published in the German Federal Gazette. The disclosure report is available for download on our website: https://www.hauck-aufhaeuser.com/newsroom/newsroom.

PROPOSED APPROPRIATION OF PROFIT

THE PERSONALLY LIABLE PARTNERS, THE SUPERVISORY BOARD AND THE SHAREHOLDERS' COMMITTEE PROPOSE THAT THE NET LOSS OF € 9,254,800.25 BE APPROPRIATED AS FOLLOWS:

	€
Distribution of a dividend of € 0.00 per stock (previous year € 0.00) on 307,692 shares on the share capital of € 16,000,000 (previous year € 16,000,000)	0.00
Transfer from the other revenue reserve	9,254,800.25
	9,254,800.25

Frankfurt am Main, 21 March 2017

Michael O. Bentlage Jochen Lucht

Hauck & Aufhäuser Geschäftsleitungs GmbH

Michael O. Bentlage Stephan Rupprecht

AUDIT OPINION

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of Hauck & Aufhäuser Privatbankiers KGaA, Frankfurt am Main, for the fiscal year from 1 January 2016 to 31 December 2016. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Institution's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Sec. 317 HGB ["Handelsgesetzbuch": German Commercial Code] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affectting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with [German] principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Institution and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Institution in accordance with [German] principles of proper accounting. The management report is consistent with the annual financial statements, complies with the legal requirements and as a whole provides a suitable view of the Institution's position and suitably presents the opportunities and risks of future development.

Eschborn/Frankfurt am Main, 23 March 2017

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Müller-Tronnier	Pfeil
Wirtschaftsprüfer	Wirtschaftsprüferin
[German Public Auditor]	[German Public Auditor]

FURTHER INFORMATION

BOARDS AND COMMITTEES

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Michael Hauck
Frankfurt am Main

SUPERVISORY BOARD

Wolfgang Deml
Rottach-Egern
Chairman

Dr. Thomas Duhnkrack
Kronberg i. Ts.
Deputy Chairman

Liu Qiang
Shanghai

Tang Bin
Shanghai

Siegfried Klink
Hetzerath
Employee Representative and Chairman of the Works Council, Luxembourg

Thomas Theobald
Usingen
Employee Representative Chairman of the Joint Works Council and Works Council Frankfurt am Main

SHAREHOLDERS' COMMITTEE

Wolfgang Deml
Rottach-Egern
Chairman

Liu Qiang
Shanghai
Deputy Chairman

Tang Bin
Shanghai

MANAGING PARTNERS & DIRECTORS

MANAGING PARTNERS

Personally Liable Partner

Jochen Lucht
Hauck & Aufhäuser Geschäftsleitungs GmbH

Partners

Michael Bentlage

Stephan Rupprecht

Statutory representatives or other employees in Supervisory Committees

Michael Bentlage
Universal-Investment-Gesellschaft mbH
Frankfurt am Main
Member of the Supervisory Board

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Investment Management

Johann Angermaier
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Stefan Schneider

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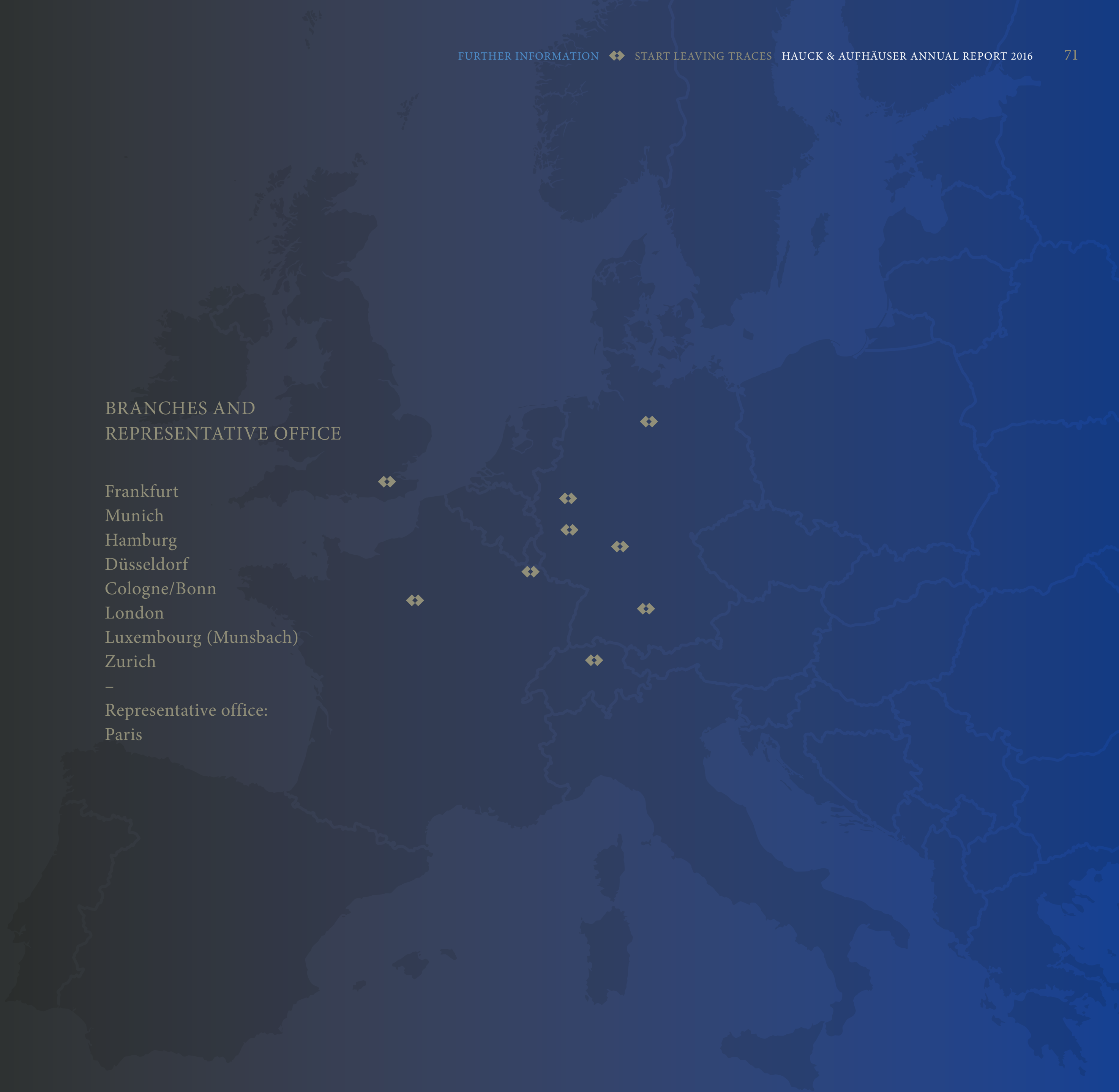

BRANCHES AND REPRESENTATIVE OFFICE

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Munich
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Cologne/Bonn
London
Luxembourg (Munsbach)
Zurich
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Representative office:
Paris

IMPRINT

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Hauck & Aufhäuser Privatbankiers KGaA,
Frankfurt am Main

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Hauck & Aufhäuser Privatbankiers KGaA,
Frankfurt am Main

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Frankfurt am Main

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